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ORIGINAL**BEFORE THE ARIZONA CORPORATION COMMISSION****COMMISSIONERS**

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS ANTHEM
WATER DISTRICT AND ITS SUN CITY
WATER DISTRICT.

DOCKET NO. W-01303A-09-0343

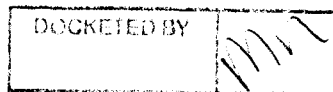
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DISTRICT, ITS SUN CITY WASTEWATER
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WASTEWATER DISTRICT

DOCKET NO. SW-01303A-09-0343

INTERVENER ANTHEM
COMMUNITY COUNCIL'S INITIAL
POST-HEARING BRIEF

Arizona Corporation Commission
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The Anthem Community Council ("Anthem") hereby submits its Initial Post-Hearing Brief.

I.

BACKGROUND

Arizona-American Water Company ("AAWC" or the "Company") is a wholly-owned subsidiary of American Water Works Company, Inc. ("American Water").¹ American Water is the largest, as measured both by operating revenue and population served, investor-owned water and

¹ Direct Testimony of Paul G. Townsley, Exh. A-3 at 1.

wastewater utility company in the United States.² In 2007, American Water generated approximately four times the operating revenue of the next largest investor-owned company in the United States water and wastewater business.³ In addition to AAWC, American Water owned regulated water and wastewater utilities in 19 other states in 2008.⁴ Approximately 83.3% of American Water's 2008 operating revenue from its regulated water utilities was generated from its seven largest states, as measured by operating revenues.⁵ The following table, which appears in American Water's Form 10-K filed with the Securities and Exchange Commission for the period ending December 31, 2008, sets forth American Water's operating revenue and number of customers as of December 31, 2008 for the states where American Water's regulated subsidiaries provided services:⁶

	Operating Revenue (\$ in millions)	% of Total		Number of Customers	% of Total
New Jersey	\$517.7	24.9 %		643,330	19.4 %
Pennsylvania	447.9	21.5 %		648,958	19.5 %
Illinois	187.5	9.0 %		307,734	9.3 %
Missouri	181.1	8.7 %		456,887	13.8 %
Indiana	156.4	7.5 %		283,886	8.5 %
California	128.6	6.2 %		170,853	5.1 %
West Virginia	115.7	5.5 %		170,404	5.1 %
Subtotal (Top Seven States)	1,734.9	83.3 %		2,682,052	80.7 %
Other†	347.8	16.7 %		639,663	19.3 %
Total Regulated Businesses	\$2,082.7	100.0 %		3,321,715	100.0 %

† Includes data from our operating subsidiaries in the following states: Arizona, Georgia, Hawaii, Iowa, Kentucky, Maryland, Michigan, New Mexico, New York, Ohio, Tennessee, Texas and Virginia.

Notably, the table reflects that revenue generated from the activities of AAWC is merely included, along with revenues derived from 12 other states, in the category of "other."

AAWC is now requesting that the Arizona Corporation Commission (the "Commission") allow an increase in water rates for its customers residing within the Anthem Water District of approximately 82% and an increase in wastewater rates for its customers residing within the

² American Water Works Company, Inc. Form 10-K for the period ending December 31, 2008, Exh. Anthem-17 at 3.

³ *Id.*

⁴ *Id.* at 10.

⁵ *Id.*

⁶ *Id.*

1 Anthem/Agua Fria Wastewater District of approximately 61%, based on a calendar 2008 test year.⁷
2 AAWC's proposed rate increases would translate into a monthly increase in the average Anthem
3 Water District residential bill of \$27.43 (from \$33.33 to \$60.76) and into a monthly increase in the
4 average Anthem/Agua Fria Wastewater District residential bill of \$31.96 (from \$52.12 to \$84.08).⁸
5 By any standard or measure, these increases constitute "rate shock" in a community that already
6 pays some of the highest water and wastewater charges in the State of Arizona and whose residents
7 are struggling financially during this recession. On June 21, 2010, the Arizona Republic reported
8 that the number of foreclosures in the Anthem community quadrupled during the first five months
9 of 2010.⁹ Further, the Anthem Community Council was forced to write off 305 homeowner
10 association accounts totaling \$433,608.19 in May due to the financial circumstances of those
11 homeowners resulting from the recession.¹⁰ It is against this backdrop that AAWC's claim of gross
12 unfairness to American Water, as its sole shareholder,¹¹ must be scrutinized and it is against this
13 backdrop that Anthem respectfully submits the following resolution(s) for the issues discussed
14 below.

15 II.

16 PHASE ONE-RATE BASE ISSUES

17 A. Introduction.

18 Anthem is proposing several rate base adjustments set forth in this Section II, including
19 several alternatives for resolving the Pulte refund issue and a recommendation regarding the
20 reduction of the rate base allocation of the Northwest Treatment Plant book value to the
21 Anthem/Agua Fria Wastewater District.
22

23
24
25 ⁷ AAAWC's Final Rate Design Schedules.

26 ⁸ These numbers were derived from information set forth in AAWC's Final Rate Design Schedules and Staff's Final Schedule JMM-2 and are based upon on the average monthly bills for Anthem residents with 5/8 inch meters using a stand-alone rate design and assuming that a typical 5/8 inch residential customer of the Anthem Water District has a median usage of 8,000 gallons and a typical 5/8 inch residential customer of the Anthem/Agua Fria Wastewater District has a median usage of 7,000 gallons.

27 ⁹ Betty Reid, Anthem Foreclosures Increase at Rapid Rate, Arizona Republic, June 21, 2010, available at <http://www.azcentral.com/news/articles/2010/06/21/20100621anthem-foreclosure-rate.html#ixzz0sDiyK7Q0>.

28 ¹⁰ *Id.*

¹¹ Rebuttal Testimony of Paul G. Townsley, Exh. A-4 at 10.

1 **B. The \$23.3 Million in AAWC's Post-2005 Refunds to Pulte Should Be Permanently**
2 **Excluded from the Rate Base and Denied Any Related Ratemaking Recognition.**

3 The combined fair value of the Anthem Water District and the Anthem/Agua Fria
4 Wastewater District rate base determined by the Commission in AAWC's last rate case affecting
5 Anthem was \$56.4 million.¹² For the current 2008 test year, AAWC is requesting significant
6 increases in rate base, including a 36% increase for Anthem residents from the 2005 test period
7 rate base, which arises from the March 31, 2008 \$20.2 million refund payment (the "2008
8 Refund") made by AAWC to Pulte Corporation ("Pulte") pursuant to the Agreement for the
9 Villages At Desert Hills Water/Wastewater Infrastructure, dated September 28, 1997, between
10 Citizens Water Resources ("Citizens"), as predecessor in interest to AAWC, and Del Webb
11 Corporation, as predecessor in interest to Pulte, as amended (the "Infrastructure Agreement").¹³
12 The Infrastructure Agreement requires AAWC to pay to Pulte approximately 100% of developer
13 advances in aid of construction ("AIAC") through a series of payments, including a \$3.1 million
14 refund in 2007 (the "2007 Refund" and, together with the 2008 Refund, the "Disputed Refund
15 Payments"), based upon the number of residential or commercial units connected to the Anthem
16 water and wastewater facilities in a given year.

17 In its Pre-Hearing Memorandum, attached hereto as Exhibit A and incorporated herein by
18 reference, Anthem demonstrated that the Commission should (i) permanently exclude from
19 AAWC's rate base, and (ii) deny any associated ratemaking recognition of the Disputed Refund
20 Payments relevant to this rate case because the Infrastructure Agreement has never been duly
21 approved by the Commission as required by Arizona law and by the express provisions of the
22 Infrastructure Agreement itself.¹⁴ The following is a brief summary of Anthem's legal analysis as
23 set forth in its Pre-Hearing Memorandum. First, Sections 40-301 *et seq.* of the Arizona Revised
24

25
26 ¹² Arizona Corporation Commission Order 70372, Docket No. WS-01303A-06-0403 at 56.

27 ¹³ Direct Testimony of Dan L. Neidlinger, Exh. Anthem-1 at 3-4. Amendments to the Infrastructure Agreement include the Letter Agreement, dated
28 November 24, 1998, the First Amendment to Agreement for Anthem Water/Wastewater Infrastructure, dated May 1, 2000, the Second Amendment
to Agreement for Anthem Water/Wastewater Infrastructure, dated September 1, 2000, the Third Amendment to Agreement for Anthem
Water/Wastewater Infrastructure, dated December 12, 2002, and the Fourth Amendment to Agreement for Anthem Water/Wastewater Infrastructure
dated October 8, 2007 (the "Fourth Amendment").

¹⁴ In the Company response to Anthem data request 2.2, Company witness Townsley acknowledges that the Commission has never issued a
decision approving the Infrastructure Agreement. Exh. Anthem-4.

1 Statutes ("A.R.S.") permit public service corporations to issue stocks, stock certificates, bonds,
2 notes and other evidences of indebtedness that are payable more than 12 months from the date of
3 issuance only when authorized by, and on terms consistent with, an order of the Commission. Any
4 stock, stock certificate, bond, note and other evidence of indebtedness issued without a prior valid
5 order of the Commission is void.

6 In a Tenth Circuit case ruling on the issue of whether a loan commitment could
7 appropriately be termed a "security" under federal law, the court stated that: "The term 'evidence
8 of indebtedness' is not limited to a promissory note or other simple acknowledgement of a debt
9 owing and is held to include all contractual obligations to pay in the future for consideration
10 presently received."¹⁵ In this instance, the Infrastructure Agreement reflects the contractual
11 obligation of AAWC to repay in the future, funds that Pulte's predecessor in interest provided to
12 AAWC's predecessor in interest to acquire and construct Anthem's water and wastewater facility.
13 Further, in Decision 70372 the Commission acknowledged that AAWC secured its repayment
14 obligations to Pulte through the issuance of two letters of credit in the respective amounts of
15 \$20,266,122 (representing the 2008 Refund) and \$6,742,041 (representing the 2010 Refund)
16 respectively.¹⁶ Therefore, because the terms of the Infrastructure Agreement set forth AAWC's
17 liability for its long-term indebtedness to Pulte, evidenced and secured by AAWC's issuance of
18 letters of credit, the Infrastructure Agreement clearly fits within the purview of A.R.S. §§ 40-301 *et*
19 *seq.* and the Disputed Refund Payments are void for want of the requisite prior Commission
20 authorization.

21 Similarly, AAWC and its predecessor failed to secure the Commission's prior approval
22 pursuant to A.A.C. R14-2-406 of the Commission's rules and regulations. As further described in
23 Anthem's Pre-Hearing Memorandum, A.A.C. R14-2-406 governs the terms of main extension
24 agreements, requires the Commission's approval of all main extension agreements, and prescribes
25 a ten percent/ten year refund formula as a guideline for the refund of AIAC. A.A.C. R14-2-406
26 does allow for alternative refund arrangements if, however, prior Commission approval of the
27

28 ¹⁵ *U.S. v. Austin*, 462 F.2d 724, 736 (10th Cir. 1972) (citing *Keller v. City of Scranton*, 49 A. 781, 782 (1901), and *Nelson v. Wilson*, 264 P. 679, 682 (1928)).

1 refund arrangement as required by A.A.C. R14-2-406(M) has been obtained. If prior Commission
2 approval is not obtained, then advances made under the provisions of an unapproved agreement
3 “shall be immediately due and payable to the person making the advance.”¹⁷ In this instance,
4 where the refund structure set forth in the Infrastructure Agreement is substantially different from
5 the guideline set forth in A.A.C. R14-2-406(D), and the requisite prior Commission approval was
6 not obtained, there is a question of what regulatory action and ratemaking treatment is now
7 appropriate since virtually all of the funds advanced under the Infrastructure Agreement have
8 already been refunded.

9 Anthem submits that the appropriate means for resolving this question and the issue related
10 to the lack of Commission approval under A.R.S. §§ 40-301 *et seq.* and A.A.C. R14-2-406 is to
11 (i) exclude from AAWC’s rate base, and (ii) deny any associated ratemaking recognition of the
12 Disputed Refund Payments. Anthem’s proposed treatment of the Disputed Refund Payments is
13 particularly appropriate in light of both the December 4, 2001 Commission Staff Report and the
14 Commission’s June 5, 2002 Decision No. 64897,¹⁸ which express a concern that the Infrastructure
15 Agreement contains “unequal refunding structures . . . that may be inconsistent with the
16 Commission’s standards.”¹⁹ Further, AAWC’s unapproved and unusual refund arrangement has
17 produced significant unintended, but perhaps known, consequences. In that regard, the Minutes of
18 the Regular Meeting of the Board of Directors of Arizona-American Water Company on July 18,
19 2005 demonstrate that AAWC was aware that the accelerated build-out of the Anthem community
20 ten years²⁰ ahead of schedule could require the Disputed Refund Payments to become due in 2007,
21 with payment of the Disputed Refund Payments showing up in AAWC’s rates to Anthem
22 customers years in advance of the dates indicated to the Commission in the 1998 CC&N
23 proceedings.²¹ Exhibit S-2, attached hereto as Exhibit B, originally filed in the 1998 CC&N
24

25 ¹⁶ Commission Decision No. 70372 at 39; Section 7 of the Fourth Amendment.

26 ¹⁷ Approval also was not obtained for a “waiver” or deviation from A.A.C. R14-2-606(C)(5) which requires that all funds advanced for sewer and
wastewater infrastructure which are not refunded within five (5) years from the date of advance become contributions in-aid-of construction. For a
further discussion of A.A.C. R14-2-606, see Exhibit A at 23.

27 ¹⁸ Docket Nos. WS-03454A-00-1022 and WS-03455A-00-1022.

28 ¹⁹ Decision No. 64897 at 6 citing the Staff Report at 3.

²⁰ Examination of Charles Enoch, Tr. 721:18-22, Docket No. WS-01303A-06-0403.

²¹ Exh. S-1 at 2.

1 proceeding, shows that the Commission was led to believe that (i) the average increase in Anthem
2 Water District rates over 1999 rates would not exceed 14.50% through 2008, and would not exceed
3 37.40% through 2013; and, (ii) the average increase in Anthem Wastewater District rates over
4 2000 rates would not exceed 7.30% through 2008, and would not exceed 12.17% through 2014.
5 As a consequence, it is reasonable to conclude that the Commission might not have approved the
6 rates initially authorized for Anthem water and wastewater customers, had it realized the
7 magnitude of future rate increases necessitated by the refunding arrangement and formula provided
8 for in the Infrastructure Agreement which were not supported by any economic feasibility analysis.

9 Anthem's proposed permanent exclusion of the Disputed Refund Payments from rate base
10 and the denial of related ratemaking recognition are intended to address the aforesaid "unintended
11 consequences" dilemma. The financial impact of the Commission's acceptance of Anthem's
12 proposal to exclude \$23.3 million of the Disputed Refund Payments from rate base is set forth on
13 Schedule Anthem Legal-1 and Schedule Anthem Legal-2, which are attached hereto as Exhibit C.

14 **C. If the Commission Does Not Disallow All of the Disputed Refund Payments, Other**
15 **Adjustments to Rate Base Should Be Made.**

- 16 1. Any portion of the Disputed Refund Payments that cannot be shown by
17 AAWC to be reasonable and proper should be permanently excluded from
the rate base and denied any related ratemaking recognition.

18 In Decision No. 70372, the Commission's comments indicated that although the payment
19 of the Disputed Refund Payments had not been alleged to be imprudent or improper in that case,
20 the Commission's determination on the matter was not intended to have any dispositive bearing on
21 the issue in any subsequent case filed by the Company.²² Anthem believes that now is the time to
22 raise the issue of the reasonableness of the Disputed Refund Payments and that the burden of proof
23 in that regard is on the Company.

24 AAWC has suggested that because the Disputed Refund Payments relate to water and
25 wastewater facilities that have been used and useful for approximately ten years, the entire \$23.3
26 million in Disputed Refund Payments should be fully included in rate base and fully accorded
27

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²² Decision No. 70372 at 43.

1 related ratemaking recognition.²³ However, because of the impending significant rate impact on
2 Anthem residents and the controversy regarding the legality of AAWC's obligation to make the
3 Disputed Refund Payments, Anthem believes that AAWC should not be allowed ratemaking
4 recognition of the payments related to the Infrastructure Agreement without first proving that the
5 Disputed Refund Payments are reasonable and proper. Again, the record in this case and the
6 record in previous AAWC rate cases indicate that the Disputed Refund Payments may not be
7 reasonable and that the Infrastructure Agreement "includes unequal refunding structures, cost caps,
8 priority services, and penalties that may not be in line with [the] Commission's standards."²⁴
9 Further, the Minutes of the Regular Meeting of the Board of Directors of Arizona-American Water
10 Company on July 18, 2005 indicate that (i) AAWC was aware that Citizens agreement to refund
11 100% of developer-funded development costs deviated from the usual practice of developers to
12 include approximately 50% of development costs in home prices; and, (ii) AAWC's obligation to
13 refund 100% of such development costs was a result of "great competition" among prospective
14 water and wastewater providers to win the Anthem project.²⁵

15 It is patently unfair and against the public interest to saddle the customers of a public utility
16 with Disputed Refund Payments originating from an allegedly "private" agreement where the
17 parties thereto had no public accountability and unfettered discretion to negotiate self-serving
18 terms to the substantial detriment of unprotected third-party ratepayers. Therefore, consistent with
19 Decision No. 71410, any portion of the Disputed Refund Payments that AAWC is unable to prove
20 to be reasonable and proper should be permanently excluded from rate base and from related
21 ratemaking recognition.²⁶

22 2. Alternatively, the Disputed Refund Payments could be temporarily excluded
23 from rate base and related ratemaking recognition in order to mitigate rate
24 shock.

25 When evaluating rate shock, both the magnitude of the percentage increase and the dollar

26 ²³ See Direct Testimony of Paul G. Townsley, Exh. A-3 at 10.

27 ²⁴ *Supra* FN 18; for a further discussion, see Exhibit A attached hereto.

28 ²⁵ Exh. S-1 at 2.

²⁶ In Decision No. 71410, Docket Nos. W-01303A-08-0227 and SW-01303A-08-0227, the Commission denied the inclusion of "estimated, unsupported costs" where the Company, who had the burden of demonstrating that plant was used and useful, was unable to provide known, measurable costs. Decision No. 71410 at 26.

1 impact must be considered.²⁷ If, for instance, a 100% increase equates to only a few dollars per
2 month it is unlikely that rate shock will occur. However, with respect to the Anthem residential
3 customers, the Company's requested \$27 per month increase in average residential water bills and
4 requested \$32 per month increase in average residential wastewater bills, for a total increase of \$59
5 per month, if approved, would have a significant financial impact and accordingly should be
6 viewed as rate shock.²⁸

7 One logical approach to mitigate the rate shock, proposed by Anthem witness Mr. Dan
8 Neidlinger, is to remove the water and wastewater plant and related accumulated depreciation
9 associated with the 2007 Refund and the 2008 Refund from plant in service for purposes of
10 ratemaking in this proceeding. The net plant would be "parked" or deferred and then transferred
11 into plant in service ratably over the five year period of 2009 through 2013, with the transfer of
12 40% or \$8 million of the aggregate 2007 Refund and 2008 Refund to plant in 2010.²⁹ Accordingly,
13 it is conceivable that the Company could be earning a return on this portion of the refund by the
14 year 2012, depending on the filing of its next rate case. Similarly, 80% or \$16 million of the
15 aggregate 2007 Refund and the 2008 Refund would be eligible for ratemaking recognition by the
16 end of 2012 thereby enabling the Company to be earning a return on the bulk of the 2007 Refund
17 and the 2008 Refund by the year 2014, again depending on rate case timing. The 2010 Refund
18 would be accorded the same treatment but transferred to plant in service over the five year period
19 of 2011 through 2015. Depreciation on all of the Pulte AIAC plant would be stayed as reclassified
20 to plant in service.³⁰

21 For accounting purposes, since the AIAC was used to fund infrastructure that is recorded in
22 many separate plant accounts, the most efficient accounting would be the establishment of two
23 control plant accounts: one for gross utility plant and one for accumulated depreciation. These
24 would be contra control accounts. The offsetting entries for both gross plant and accumulated
25 depreciation would be recorded in separate plant held for future use accounts. Accumulated
26

27 Direct Testimony of Dan L. Neidlinger, Exh. Anthem-1 at 3.

28 *Supra* FN 8.

29 *Id.* at 4; Surrebuttal Testimony of Dan L. Neidlinger, Exh. Anthem-3 at 3.

1 depreciation would be based on overall accumulated depreciation percentages at December 31,
2 2008, the end of the test year. The accumulated depreciation percentages are 14.93% for water
3 plant and 17.38% for wastewater plant.³¹

4 As shown on Schedule Anthem-3, attached hereto as Exhibit C, these plant deferrals
5 coupled with a lower rate of return reduces the requested increase in water revenues to 56%.
6 Similarly, the increase in wastewater revenues is reduced to 63%. AAWC indicated in response to
7 Anthem's first data request that \$14.9 million of the 2008 Refund was water plant and the
8 remaining \$5.3 million was wastewater plant. By applying the 14.93% accumulated depreciation
9 percentage for water plant and the 17.38% accumulated depreciation percentage for wastewater
10 plant, the net plant adjustments to water and wastewater rate base are \$12.7 million and \$4.4
11 million, respectively.³² As demonstrated on Schedule Anthem-3, this alternative ratemaking
12 treatment provides for gradual increases in rate base in contrast to the sudden and dramatic
13 increases in rate base which would result from the Company's proposal.³³

14 Anthem witness Mr. Michael Arndt testified that the Disputed Refund Payments represent
15 abnormal and extraordinary events which need to be addressed for ratemaking purposes. The
16 Company's request to immediately and fully include the Disputed Refund Payments in rate base
17 and to accord related ratemaking recognition would result in substantial increases in average
18 Anthem residential water and average residential wastewater bills, thereby producing rate shock.
19 Mr. Arndt believes that Mr. Neidlinger's plan properly addresses and mitigates the attendant
20 problem of rate shock.³⁴

21 However, AAWC witness Mr. James Jenkins asserted that Mr. Neidlinger's ratable transfer
22 plan would have adverse financial consequences to AAWC, due to a perceived need to comply
23 with financial accounting standards ASC 980-340 (formerly SFAS 92) pertaining to phase-in plans
24
25

26 ³⁰ Direct Testimony of Dan L. Neidlinger, Exh. Anthem-1 at 4.

27 ³¹ *Id.* at 4-5.

28 ³² *Id.* at 5-6.

³³ *See id.* at 6.

³⁴ Direct Testimony of Michael L. Arndt, Exh. Anthem-13 at 4.

1 and ASC 980-360 (formerly SFAS 90) pertaining to plant disallowance.³⁵

2 SFAS 92 was adopted in the late 1970's in recognition that the increasing cost of electric
3 generating facilities were resulting in significant rate increases based on conventional rate-making
4 methods. In these instances, some regulators allowed phase-in plans to moderate the initial rate
5 increases. SFAS 92 requires allowable costs deferred for future recovery under a phase-in plan
6 related to plants completed before January 1, 1988 to be capitalized in certain instances. However,
7 for plants, like the Anthem plants, where completion occurred after January 1, 1988, any allowable
8 costs deferred under any phase-in plan would not be capitalized. *"Instead, those costs would be*
9 *recognized in the same manner as if there were no phase-in plan."* [Emphasis added]³⁶
10 Accordingly, whether or not the Commission approves Mr. Neidlinger's ratable plant transfer plan,
11 AAWC's financial reporting would remain the same under SFAS 92. Therefore, SFAS 92 is not
12 an impediment to the Commission's adoption Mr. Neidlinger's ratable plant transfer plan.³⁷

13 Mr. Jenkins also argues that SFAS 90 provides guidance on cost disallowances. SFAS 90
14 states that when it becomes probable that part of the cost of a recently completed plant will be
15 disallowed for ratemaking purposes and a reasonable estimate of the amount of disallowance can
16 be made, then that amount will be deducted from the reported cost and recognized as a loss.³⁸
17 SFAS 90 was issued in December 1986 to address the abandonments of plants and disallowances
18 of costs of electric utility plants. In that regard, SFAS 90 does not address refunds relating to prior
19 AIACs.³⁹ In addition, the Company has not abandoned any water or wastewater plant in this case;
20 and Anthem's ratable plant transfer proposal does not contemplate or require a disallowance of
21 utility plant. Rather, Neidlinger's proposal addresses the timing of ratemaking recognition. SFAS
22 90, therefore, does not apply in this case, and to Mr. Arndt's knowledge, there have been no prior
23 water or wastewater rate cases or utility commission decisions in the United States which SFAS 90
24 has been used as a reason to reject or decline to adopt a ratable plant transfer plan such as proposed

25
26 ³⁵ Pre-Filed Surrebuttal Testimony of James M. Jenkins, Exh. A-44 at 3-6.

27 ³⁶ Financial Accounting Standards Board Original Pronouncements As Amended, Statement of Financial Accounting Standards No. 92 at FAS92-1.

28 ³⁷ Direct Testimony of Michael L. Arndt, Exh. Anthem-13 at 6.

³⁸ Pre-Filed Surrebuttal Testimony of James M. Jenkins, Exh. A-44 at 5.

³⁹ Direct Testimony of Michael L. Arndt, Exh. Anthem-13 at 7-8.

1 by Mr. Neidlinger.⁴⁰ In connection with the foregoing, Mr. Jenkins acknowledges that plant
2 disallowance could be avoided under SFAS 90 if the Commission guaranteed to the Company the
3 automatic future recovery of the Disputed Refund Payments over a short period of time.⁴¹

4 3. Alternatively, the Commission could include the 2008 Refund in current rate
5 base but phase-in recognition of the rate of return thereon.

6 In recognition of the Commission's obligation to balance the interests of AAWC and the
7 ratepayers, the Commission could allow AAWC to include the full amount of the 2008 Refund in
8 rate base in the current rate case, but order a phase-in of recognition of the ROR thereon, beginning
9 with the instant case. This approach would allow AAWC to realize an immediate return on its
10 Anthem plant investments while recognizing that AAWC has benefited from the interest-free use
11 of plant financed with AIAC for many years.⁴² Further, this approach would mitigate, in a more
12 limited fashion, the rate shock that would otherwise result from the rates sought by AAWC in this
13 case.

14 D. A Smaller Portion of the Northwest Treatment Plant Cost Should be Allocated to the
15 Anthem/Agua Fria Wastewater District for Stand-Alone Ratemaking Purposes.

16 The discussion in this section assumes the continued mini-consolidation of two of AAWC's
17 wastewater districts, the Anthem wastewater district and the Agua Fria wastewater district. Absent
18 a decision by the Commission to consolidate all of AAWC's water and wastewater districts in the
19 State of Arizona, there is no substantial reason for the continued consolidation of these two
20 districts for ratemaking purposes. Therefore, if the Commission does not order the consolidation
21 of rates among all of AAWC's wastewater districts within Arizona, then, as further set forth in
22 Section IV.C.3. hereof, the deconsolidation of the Anthem and Agua Fria wastewater districts for
23 cost allocation and rate design purposes should be implemented as part of any final Commission
24 decision in this proceeding.

25 In any event, the Anthem/Agua Fria Wastewater District should be allocated a smaller
26

27 ⁴⁰ *Id.* at 8.

28 ⁴¹ Cross-Examination of James M. Jenkins, Phase II Tr. 520:8-14.

⁴² Direct Examination of Michael L. Arndt, Phase II Tr. 591:11-20.

1 portion of the Northwest Treatment Plant than the amount proposed by Staff and accepted by
2 AAWC. Staff recommends a \$1,039,823 downward adjustment to the total book value of the
3 Northwest Treatment Plant allocated to the Anthem/Agua Fria Wastewater District to reflect
4 currently anticipated relative capacity demands as between the Anthem/Agua Fria Wastewater
5 District and the Sun City West Wastewater District respectively. This adjustment would result in
6 the allocation of 28% of the Northwest Treatment Plant book value to the Anthem/Agua Fria
7 Wastewater District (down from 32% in the prior rate case) and the allocation of 72% of the
8 Northwest Treatment Plant book value to the Sun City West Wastewater District (up from 68% in
9 the prior rate case).⁴³ However, according to Mr. Neidlinger, the 28% allocation of the Northwest
10 Treatment Plant book value to the Anthem/Agua Fria Wastewater District exceeds, by a wide
11 margin, the percentage that should be used for ratemaking purposes in this case.⁴⁴ Schedule
12 Anthem-4, attached hereto as Exhibit C, shows historical customer growth rates for Northeast
13 Agua Fria ("NEAF"), the projected growth rates calculated by Staff and Anthem's revised growth
14 rate calculations.

15 As Mr. Neidlinger noted, Staff made a material error in its historical customer growth rate
16 calculation and compounded the error by then assuming that customer growth in NEAF would
17 increase linearly at this rate in the future. Staff assumed that there were no customers in the NEAF
18 service area at the end of 2004 but in fact Staff's engineering report in the 06-0491 case shows 602
19 customers receiving service in the NEAF service area in January 2005. Using this customer count,
20 the customer increase for the five-year historical period would be 2,214 customers (443 customers
21 per year) rather than 2,816 customers (704 customers per year) as estimated by Staff. Correcting
22 this error alone would reduce the percentage allocated to the Anthem/Agua Fria Wastewater
23 District to 23%.⁴⁵

24 In addition, historical growth rate should not be used to project future growth in the NEAF
25 service area because it fails to consider recent changes in economic conditions. For instance, due
26

27 ⁴³ Direct Testimony of Gary T. McMurtry, Exh. S-5 at 13.

28 ⁴⁴ Surrebuttal Testimony of Dan L. Neidlinger, Exh. Anthem-3 at 4.

⁴⁵ (Paragraph) *id.* at 4-5, Direct Examination of Dan L. Neidlinger, Phase I Tr. 851:16-23.

1 to the slow housing market, NEAF experienced a negative growth of 59 customers in 2008 and an
2 increase of only 98 customers in 2009. Mr. Neidlinger recommends a growth rate for NEAF of
3 111 customers per year for the four year period of 2010 through 2013 by averaging the customer
4 growth rate for the years 2007 through 2009. Staff's projected growth rate does not reflect actual
5 growth since the 2008 test year. Staff projected 3,520 customers at the end of 2009 compared with
6 the actual count of 2,914. This represents a 606 customer or 21% forecast error in one year.
7 Further, given the current and forecasted economic situation, NEAF is unlikely to achieve Staff's
8 projected customer count of 4,224 at the end of 2010, which is less than six months from today.
9 Using Mr. Neidlinger's more feasible customer growth projection, a 16.5% allocation percentage
10 of the Northwest Treatment Plant book value to the Anthem/Agua Fria Wastewater District, based
11 on the same calculation assumptions for maximum peak day flows per customer used by Staff, is
12 appropriate.⁴⁶

13 III.

14 PHASE ONE-COST OF CAPITAL/RATE OF RETURN

15 The Staff has recommended, and AAWC has consented to, a 7.20% Rate of Return
16 ("ROR") based on the cost of equity estimates for AAWC that range from 9.70% using the
17 discounted cash flow method ("DCF") to 10.00% using the capital asset pricing method
18 ("CAPM").⁴⁷ The Residential Utility Consumer Office ("RUCO") has recommended a 6.77%
19 ROR, based upon a 9.50% cost of equity capital that falls within the range of results obtained
20 through DCF (5.24%) and CAPM (9.75%) methodologies.⁴⁸ Anthem supports a ROR not to
21 exceed 6.77% and agrees with RUCO that this ROR is sufficient to attract equity investors.
22 However, Anthem believes that the 6.77% ROR can be further decreased to recognize market
23

24 ⁴⁶ (Paragraph) Surrebuttal Testimony of Dan L. Neidlinger, Exh. Anthem-3 at 5-6. Schedule Anthem-5, Exhibit C, shows the calculation details
25 supporting Staff's 28% allocation percentage and Anthem's recommended allocation percentage of 16.5% (rounded up from the 16.41% calculated
26 percentage). Adjustments to reduce rate base and increased operating income due to the lowering of the allocation factor to 16.5% are shown on
27 Schedule Anthem-6, Exhibit C. A reduction of approximately \$2.5 million is proposed by Anthem for Staff's rate base and the Company's rebuttal
28 rate base. A larger reduction, approximately \$3.3 million, is proposed for RUCO's rate base since it includes a 32% cost allocation factor of the
Northwest Treatment Plant. Corresponding increases to operating income are \$127,316 for Staff and the Company and \$253,935 for RUCO.
Schedule Anthem-7, Exhibit C, shows the effect on revenue requirements of combining the Northwest Treatment Plant adjustment and the 2008
Refund adjustment. As indicated on that schedule, these adjustments reduce Staff's proposed wastewater increase from 58% to 45%. RUCO's
proposed increase is reduced from 61% to 46% and the Company's proposed increase of 61% is reduced to 49%.

⁴⁷ Direct Testimony of Juan C. Manrique, Exh. S-3 at 10; Rebuttal Testimony of Thomas M. Broderick, Exh. A-7 at 4.

⁴⁸ Direct Testimony on Cost of Capital of William A. Rigsby, Exh. R-3 at 36-37, 59.

1 realities.⁴⁹ In its financing application, Docket No. WS-01303A-09-0407, dated August 26, 2009,
2 the Company represented to the Commission that American Water Capital Corporation
3 (“AWCC”), a wholly-owned subsidiary of American Water, is the primary financing entity for all
4 of American Water’s subsidiary utility companies. In American Water’s 2009 Annual Report,
5 AWCC’s weighted average short-term interest rates dropped from 3.51% during 2008, computed
6 on a daily basis, to 0.75% on December 31, 2008. Similarly, in 2009, AWCC’s weighted average
7 short-term interest rates declined from 0.82%, computed on a daily basis, to 0.39% on December
8 31, 2009. RUCO’s ROR includes a 3.4% cost of short-term debt. Accordingly, Anthem
9 recommends a further decrease of the 6.77% ROR to reflect the Company’s actual lower cost of
10 capital.⁵⁰

11 12 IV. PHASE TWO - RATE CONSOLIDATION AND RATE DESIGN

13 A. Introduction.

14 The Commission should consolidate all of AAWC’s water and wastewater districts in the
15 State of Arizona through a five-step implementation plan. Rate consolidation is a long-term
16 solution that, over the long haul, benefits all customers.⁵¹ In order to achieve the maximum
17 benefits of consolidation articulated below, Anthem recommends company-wide consolidation.⁵²
18 Partial consolidation (such as recommended by Staff) is not consistent with the purposes of
19 consolidation and would not provide any meaningful improvement for Anthem residents over the
20 current stand-alone rate design.

24 ⁴⁹ See also opinion and supporting materials filed by Stephen P. Puhr as public comment with the Commission’s docket control on April 28, 2010.

25 ⁵⁰ Cross-Examination of Dan L. Neidlinger, Phase I Tr. 861:12-862:13; Exh. R-8 at 118.

26 ⁵¹ Direct Examination of Paul G. Townsley, Phase II Tr. 347:14-352:5.

27 ⁵² RUCO has received 80 pieces of correspondence from Anthem ratepayers and the vast majority of them do indicate support for rate
28 consolidation. Direct Examination of Jodi A. Jerich, Phase II Tr. 1088:13-21, 1095:18. Anthem acknowledges that RUCO has also received
correspondence opposing consolidation and that RUCO may formulate legal arguments opposing consolidation based upon (i) the use of revenue
requirements for two different test years and (ii) the Commission’s revenue neutrality requirement set forth in Decision No. 71410. *Id.* at 1091:4-11,
1095:16-20. Anthem’s counsel would like the opportunity to analyze these arguments if and when they are fully articulated in RUCO’s initial post-
hearing brief and will respond in Anthem’s reply post-hearing brief.

1 “Because it was Tubac two years ago, and it could be Sun City three years
2 from now. And Anthem was in the box last year and this year. So everybody
3 is in the box sooner or later. *Everybody needs help sooner or later.*”
4 [Emphasis added]⁵³

5 The benefits of rate consolidation include (i) lower administrative costs through unified
6 customer accounting and billing systems; (ii) reduction in the number of rate cases and associated
7 expenses; (iii) elimination of distorted cost allocations among districts in rate filings;
8 (iv) implementation of standard customer service policies and related service rates and charges;
9 (v) improved rate stability and elimination of rate shock; (vi) reduced customer confusion with
10 respect to the Company’s currently differing rate schedules; (vii) development and implementation
11 of a targeted and comprehensive water conservation program for all of its systems; and
12 (viii) improved opportunities for future acquisitions, especially of troubled water systems.⁵⁴
13 Further, consolidation of the Company’s existing rate structures on a company-wide basis would
14 be consistent with AAWC’s single-company manner of operation.⁵⁵ AAWC operates as a single
15 entity for all purposes other than the ratemaking process.⁵⁶

16 **B. Anthem Supports the Company-Wide Consolidation of All Water Districts and All**
17 **Wastewater Districts Within the State of Arizona by means of AAWC’s Preferred**
18 **Consolidation Scenario One.**

19 There are an infinite hypothetical number of rate designs proposals for AAWC’s districts
20 and a plethora of designs presented in this case. Intervenor Marshall Magruder has compared the
21 various consolidation and stand-alone rate proposals. See Exhibit Magruder 4, attached hereto as
22 Exhibit D. Anthem supports AAWC’s Preferred Consolidation Scenario One.⁵⁷ Scenario One
23 includes the consolidation of all of the Company’s water and wastewater districts. In contrast, the
24 partial consolidation alternatives presented by AAWC and Staff do not provide for any meaningful
25

26 ⁵³ Chairman Kristin K. Mayes, Phase II Tr. 63:16-20.

27 ⁵⁴ See *supra* FN 51; see also Direct Testimony of Dan L. Neidlinger Stand-Alone Rate Design and Rate Consolidation, Exh. Anthem-18 at 5-6. Mr. Magruder lists 22 rate consolidation benefits on Table 1, Page 12 of Magruder-1 incorporating many of the benefits listed above as well as others that deserve some consideration.

28 ⁵⁵ Cross-Examination of Thomas M. Broderick, Phase II Tr. 102:21-25.

⁵⁶ Company response to Staff Data Request STF 21.1.

⁵⁷ Company Consolidation Model Version 4.

1 improvement over the current stand-alone system, seem arbitrary and unworkable, are myopic,⁵⁸
2 and reflect the amalgamation of rate designs for the disparate systems which, through acquisition,
3 are the current districts of the AAWC.

4 Scenario One provides for a consolidation implementation plan using five steps from stand
5 alone to full consolidation. Although a five-step consolidation plan will delay implementation of
6 full consolidation, it will allow for a smoother transition and will reduce rate shock for customers
7 in those districts whose rates will increase more than they would without consolidation.⁵⁹ In each
8 step of the five steps, one-fifth of the aggregate rate increase or decrease, as the case may be,
9 required to transition to total consolidation would be stepped in. As a result, percentage step
10 adjustments in steps two through five would be roughly equal.⁶⁰

11 Scenario One is also preferable because it includes five residential tiers in the commodity
12 rate component which allows AAWC to address the variation in customer use patterns across the
13 various districts.⁶¹ Multiple tiers avoids large intra-class subsidies that would result in the absence
14 of commodity tiers to address variation in customer use patterns.⁶² For example, most of the
15 consumption in the Sun City water district occurs in the first or second tiers, whereas Sun City
16 West has substantial consumption in the second and third tiers. Similarly, Tubac and Paradise
17 Valley have significant consumption in the fourth and fifth tiers.⁶³ While the Company has not
18 proposed a time frame for implementing each of the five-steps, Anthem suggests a five-year time
19 frame, with annual step increases.⁶⁴ Anthem Rate Design Schedule 2 – “Development of
20 Consolidated Rate Design Adjustment Factors,” attached hereto as Exhibit E, sets forth the
21 consolidated rate design adjustment factors proposed by Anthem.

22
23
24 ⁵⁸ See Phase II Tr. 24:18-20.

25 ⁵⁹ See Direct Testimony of Dan L. Neidlinger Stand-Alone Rate Design and Rate Consolidation, Exh. Anthem-18 at 7.

26 ⁶⁰ Step one is an exception because the rate adjustment must account for the transition from an existing rate design to a new rate design as well as the step in of one-fifth of the revenue change from rate consolidation. Direct Examination of Thomas M. Broderick, Phase II Tr. 1480:5-10, 1481:6-11.

27 ⁶¹ See Rebuttal of Staff Rate Design Testimony of Thomas M. Broderick, Exh. A-39 at 14.

28 ⁶² Direct Examination of Thomas M. Broderick, Phase II Tr. 1483:15-1484:7; Direct Testimony of Dan L. Neidlinger Stand-Alone Rate Design and Rate Consolidation, Exh. Anthem-18 at 8.

⁶³ Company response to Staff Data Request STF 21.8.

⁶⁴ Direct Examination of Thomas M. Broderick, Phase II Tr. 1502:21-23.

1 **C. Alternatively, Anthem Supports the Stand-Alone Rate Design for Anthem Proposed**
2 **by AAWC, Modified by the Deconsolidation of Anthem and Agua Fria Wastewater**
3 **Districts.**

4 1. AAWC's proposed rate design is acceptable.

5 In the event that the Commission does not adopt company-wide consolidated rates
6 in this proceeding, the current fixed/commodity rate structure of the Anthem water and wastewater
7 districts should be retained and any rate increases applied on an across-the-board basis. Absent
8 water and wastewater cost of service analyses, the across-the-board approach recommended by
9 AAWC is the only logical rate adjustment mechanism proposed in this case.

10 2. Staff's proposals for rate design are unacceptable.

11 Because Staff's proposed changes to water and wastewater rate designs are without
12 adequate foundation or support and would adversely affect Anthem customers, the Commission
13 should reject Staff's proposed stand-alone rate design for the Anthem Water District. There is no
14 justification for the Staff's extreme tilting of the rate structure which could create significant
15 revenue stability problems for AAWC. For instance, for the 5/8" x 3/4" meters, Staff's
16 recommended rate (i) for the first tier, 0-3,000 gallons, results in an increase from \$1.54 to \$2.00 –
17 or 30%, (ii) for the second tier, 3,001-9,000 gallons, is \$5.00 or 207% greater than the current rate
18 of \$2.41, (iii) for the third tier, usage over 9,000 gallons, is \$7.867 or 255% greater than the current
19 rate of \$3.08. In addition, the proposed changes in tier break-points for the larger meter sizes,
20 when coupled with Staff's proposed 207% and 255% rate increases will increase the bills for many
21 commercial customers to levels that cannot be logically supported. For instance, the water bill for
22 a 2" meter commercial customer using 200,000 gallons would increase 251%. Staff did not
23 prepare a cost of service study for the Anthem Water District to support its rate design revisions,
24 nor did it discuss any non-cost factors that it considered in arriving at its rate proposals.⁶⁵

25 The Commission should also reject Staff's proposed stand-alone rate design for the
26 Anthem/Agua Fria Wastewater District. The current wastewater rate for Anthem/Agua Fria
27 Wastewater District residential customers is comprised of a fixed monthly charge and a commodity
28

⁶⁵ (Paragraph) Direct Testimony of Dan L. Neidlinger Stand-Alone Rate Design and Rate Consolidation, Exh. Anthem-18 at 2-3.

1 charge based on water usage with a 7,000 gallon per month ceiling. Staff's proposed rate design
2 eliminates the fixed monthly charge and recommends a monthly rate based on average monthly
3 water usage in the months of January through March – a purely commodity rate. Staff has no prior
4 experience with this type of wastewater rate design, did not provide supporting studies, and could
5 not cite any Commission precedent to support the same. Rather, it simply noted that some
6 municipalities follow such a rate design practice, but failed to demonstrate how such practice was
7 relevant to private utilities regulated by the Commission or Anthem's wastewater system.⁶⁶

8 Furthermore, this proposed change in wastewater rates for Anthem's residential
9 customers should not be accepted, because winter lawns are a requirement in Anthem under
10 various land-use restrictions, and thus a large percentage of the water use in the months of January
11 through March is turf irrigation that never enters the wastewater collection system. As a result,
12 Anthem residential customers would be required to pay, under Staff's proposed rates, wastewater
13 charges on nonexistent sewerage.⁶⁷ In addition, AAWC noted that the elimination of the fixed
14 monthly charge (i) deviates from basic cost of service principles; (ii) would increase AAWC's
15 dependence on wastewater revenues on water sales, which vary significantly, thereby further
16 exacerbating its revenue erosion problem.⁶⁸ Accordingly, Anthem recommends that residential
17 customers be billed a fixed monthly charge for wastewater services which is a standard ratemaking
18 practice for most wastewater utilities and is consistent with the wastewater rates currently charged
19 to residential customers in AAWC's other wastewater districts.

20 3. If company-wide consolidation is not adopted by the Commission, Anthem
21 recommends the deconsolidation of the Anthem/Agua Fria Wastewater
22 District.

23 If consolidation of all AAWC districts is not adopted in this case, the Commission
24 should deconsolidate the Anthem and Agua Fria wastewater districts and set separate stand-alone
25 rates for each district. Anthem wastewater customers should not continue to be burdened by what
26

27 ⁶⁶ Cross-Examination of Jeffrey M. Michlik, Phase II Tr. 1265:14-1270-22.

28 ⁶⁷ *Id.*

⁶⁸ Cross-Examination of Thomas M. Broderick, Phase II Tr. 159:4-12.

1 in effect is a subsidization of Agua Fria wastewater customers under the existing rate design.⁶⁹ As
2 part of RUCO's discussion regarding consolidation,⁷⁰ Ms. Jerich asserted that the Commission
3 should deviate from cost of service rate design, as in a case of rate consolidation, only if it can
4 identify reasons in favor of the rate consolidation that outweigh the identified reasons against rate
5 consolidation.⁷¹ If the Commission accepts Ms. Jerich's argument and denies company-wide
6 consolidation because the associated interim cross-subsidization deviates from cost of service rate
7 design, then Anthem and Agua Fria, for the same reason, should be deconsolidated. Further, if the
8 Commission denies state-wide consolidation because the systems are not interlinked or
9 geographically close, then the Anthem and Agua Fria wastewater districts, for the same reason,
10 should be deconsolidated. In the Company's response to Anthem data request 6.2, Mr. Broderick
11 indicated that none of the four wastewater facilities in the Anthem/Agua Fria wastewater district
12 are interconnected.⁷² Moreover, Anthem wastewater customers receive no service from the
13 Northwest Treatment Plant, whereas Agua Fria wastewater customers do. Therefore, Agua Fria
14 wastewater customers should absorb any of the Northwest Treatment Plant costs not allocated to
15 Sun City West. Finally, regardless of whether or not the Anthem and Agua Fria wastewater
16 districts are deconsolidated, the Commission should reject Staff's recommended rate design.⁷³

17 In summary, Anthem supports Scenario One consolidation as a useful long-term strategy
18 for decreasing inefficiencies in AAWC's provision of water and wastewater services. However, if
19 consolidation of all of AAWC's districts is not accomplished in this case, the Commission should
20 deconsolidate the Anthem and Agua Fria wastewater districts and set separate stand-alone rates
21 taking into account the adjustment factors set forth on Anthem Rate Design Schedule 1 entitled
22 "Development of Stand-Alone Rate Design Adjustment Factors," attached hereto as Exhibit E.
23
24
25

26 ⁶⁹ Cross-Examination of Paul G. Townsley, Phase I Tr. 331:15-334:5.

27 ⁷⁰ RUCO does not take a position on the question of whether there should be a deconsolidation of the Anthem and the Agua Fria wastewater
28 districts in the event that the Commission decides to retain stand-alone rates. Cross-Examination of Jodi A. Jerich, Phase II Tr. 1157:16-21.

⁷¹ Direct Examination of Jodi A. Jerich, Phase II Tr. 1090:6-15.

⁷² Exh. Anthem-7 response to Anthem data request 6.2. See Direct Testimony of Dorothy M. Hains, Exh. S-7 at 13, Exhibit DMH-3 Figure 1 for a
map depicting the geographical distance between the Anthem and Agua Fria wastewater districts.

⁷³ See Section IV.C.2. herein for Anthem's discussion of Staff's proposed stand-alone rate design.

V.

CONCLUSION

For the reasons discussed above, and based upon the record in the instant proceeding, Anthem requests the Commission enter an opinion and order to provide for the following:

- (i) the permanent exclusion from AAWC's rate base, and denial of any related ratemaking recognition of the post-2005 Pulte refund payments; or in the event that such permanent exclusion is determined not to be appropriate in this instance, then
- (ii) with regard to the post-2005 Pulte refund payments, the adoption of one of the alternative ratemaking approaches in Section II.C. hereof; and
- (iii) a reduction in the portion of the Northwest Treatment Plant cost to be allocated to the Anthem/Agua Fria Wastewater District for stand-alone ratemaking purposes to 16.5%; and
- (iv) the establishment of the revenue requirement for AAWC based on a rate of return not to exceed 6.77%; and
- (v) the consolidation all of AAWC's water and wastewater districts within the State of Arizona using AAWC's Scenario One; or
- (vi) the deconsolidation of the Anthem and Agua Fria Districts wastewater districts and the provision of stand alone rates for each, if company-wide consolidation is not approved.

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1 DATED this 16th day of July, 2010.

2 Respectfully submitted,

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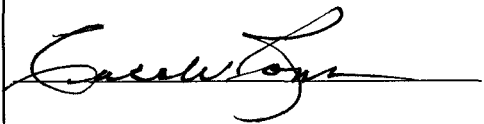
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Exhibit

A

BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON FOR
UTILITY SERVICE BY ITS ANTHEM WATER
DISTRICT AND ITS SUN CITY WATER
DISTRICT.

DOCKET NO. W-01303A-09-0343

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON FOR
UTILITY SERVICE BY ITS ANTHEM/AGUA
FRIA WASTEWATER DISTRICT, ITS SUN CITY
WASTEWATER DISTRICT AND ITS SUN CITY
WEST WASTEWATER DISTRICT.

DOCKET NO. SW-01303A-09-0343

INTERVENER ANTHEM
COMMUNITY COUNCIL'S PRE-
HEARING MEMORANDUM ON
DISPUTED REFUND PAYMENT
ISSUE

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INTRODUCTION

The Anthem Community Council ("Anthem") intends to argue in the forthcoming hearings in the above-captioned and above-docketed proceedings ("instant proceedings") that the Commission should (i) permanently exclude from Arizona-American Water Company's ("AAWC") rate base, and (ii) deny any associated ratemaking recognition of the 2007 \$3.1 and March 31, 2008 \$20.2 million refund payments (collectively "disputed refund payments") made by AAWC to Pulte Corporation ("Pulte").¹ The refund payments in question were occasioned by a September 28, 1997 Agreement For The Villages At Desert Hills Water/Wastewater Infrastructure ("Infrastructure Agreement") among predecessors-in-interest to AAWC and Pulte; and, it is the position of Anthem that neither the Infrastructure Agreement nor any of the subsequent First through Fourth Amendments thereto have been approved by the Commission nor recognized for ratemaking purposes.

In that regard, and as most recently noted by the Commission in its Decision No. 70372 (June 13, 2008) in AAWC's 2005 rate case,

"At this time, no party has alleged, and we do not find, that the Company's repayment of developer advances under the Anthem Agreements has been imprudent or improper." [Decision No. 70372 at page 43, lines 11-13] [emphasis added]

* * *

"[However] Our determination in this case is not intended to have any bearing on our determination in any subsequent case filed by the Company for these districts regarding the Company's agreement to refund to Pulte almost all of the costs required to construct Anthem's water [and wastewater] infrastructure." [Decision No. 70372 at page 43, lines 20-23] [emphasis added]

The "time" to question the "reasonableness" of such undertaking by AAWC (and its predecessors-in-interest), as well as the regulatory status of the document(s) occasioning

¹ Anthem will also be addressing other issues in the instant proceeding through (i) the testimony and exhibits of its own witnesses, (ii) cross-examination of other parties' witnesses, and (iii) oral argument and/or briefs, as appropriate.

BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON FOR
UTILITY SERVICE BY ITS ANTHEM WATER
DISTRICT AND ITS SUN CITY WATER
DISTRICT.

DOCKET NO. W-01303A-09-0343

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"Commission approval of the [Infrastructure] Agreement and the Purchase Agreement without amendment or modification is a condition subsequent to the continued effectiveness of those agreements, as provided in Section 14.6 (a) of the [Infrastructure] Agreement and Section 17.3 of the Purchase Agreement." [Joint Application at page 12, lines 14-17] [emphasis added]

Despite the foregoing representation and admonition by Citizens, in its April 16, 1998 Staff Report, the Commission's Utilities Division recommended that the Commission not act upon Citizens' request for approval of the Infrastructure Agreement:

"Staff does not recommend that the Commission consider approval of the Infrastructure Agreement between Citizens and a non-regulated entity such as Del Webb under the circumstances described in the application. The approval of the Agreement is not necessary for the Commission's consideration and decision in these matters. Also, the Commission may propose certain terms and conditions in its order in this case that may not be reflected in the [Infrastructure] Agreement. By declining to approve the [Infrastructure] Agreement the Commission is free to impose these conditions without specifically amending or modifying the [Infrastructure] Agreement." [Staff Report at page 2, lines 12-18] [emphasis added]⁵

"Staff further recommends that the Commission not consider any determination regarding the requested approval of the Infrastructure Agreement." [Staff Report at page 10; lines 11-12]

In its Decision No. 60975 on the Joint Application, the Commission noted that

"At the hearing, Staff recommended that . . . the Commission not consider any determination regarding the requested approval of the Infrastructure Agreement." [Decision No. 60975, Finding of Fact No. 13(j) at page 6, lines 9 and 27.5-28, respectively]

Thereafter, in Conclusion of Law No. 7, the Commission concluded that

"Staff's recommendations, as set forth in Finding of Fact No. 13 [inclusive of subparagraph (i)] should be adopted. [Decision No. 60975 at page 10, line 24.5]; and,

⁵ The importance of the underscored language in this quotation will become evident in connection with the discussion of Decision No. 64897 in Section II (D) below.

1 Accordingly, in the Eighth Ordering Paragraph of its decision, the Commission provided
2 that

3 "IT IS FURTHER ORDERED that the Staff recommendations
4 contained in Finding of Fact No. 13 . . . (j), as agreed to by
Citizens Utilities Company, are adopted . . ." [Decision No.
60975 at page 15, lines 4-6]

5 Thus, the first time the Commission was asked to approve the Infrastructure
6 Agreement, it expressly declined to do so.

7 **B. November 24, 1998 Letter Agreement.**

8 On November 24, 1998, Citizens, Del Webb Corporation ("Del Webb") and Anthem
9 Arizona, L.L.C. (an affiliate of Del Webb) entered into a Letter Agreement "to resolve the
10 consequences of two circumstances," each of which pertained to the provisions of the
11 Infrastructure Agreement.⁶ The first such "circumstance" was occasioned by the fact that

12 "The [Infrastructure] Agreement was not approved by the
13 Arizona Corporation Commission on or before August 15,
1998." [Letter Agreement at page 1, lines 19-20]

14 As the Joint Applicants had stated in the October 29, 1997 Joint Application discussed in
15 Section II (A) above, Commission approval of the Infrastructure Agreement without
16 amendment or modification was a condition subsequent to the continued effectiveness of
17 the Infrastructure Agreement. Given that the Commission declined in Decision No. 60975
18 to address or act upon the Infrastructure Agreement at all, it would appear that the
19 subsequent Letter Agreement was entered into with an express purpose of avoiding a
20 termination of the Infrastructure Agreement by reason of the aforesaid "condition
21 subsequent."

22 In that regard, as may be noted therefrom, the Letter Agreement establishes a
23 formula and schedule by means of which certain refund payments were to be made by
24 Citizens to Del Webb for the period July 1, 2004 through July 1, 2016. In addition, the
25 Letter Agreement also provided that

26
27 ⁶ A copy of the November 24, 1998 Letter Agreement is attached hereto as Appendix "A" and is incorporated herein
28 by this reference.

1 "Within 45 days after executing the First Amendment [of the
2 Infrastructure Agreement], Citizens will re-file for approval by
3 the Arizona Corporation Commission of the [Infrastructure]
4 Agreement, as amended by the First Amendment." [Letter
5 Agreement at page 2, lines 18-20]; and,

6 it also provided for a further revised refund formula, in the event that

7 "... the Commission does not approve the re-filed
8 [Infrastructure] Agreement ..." [Letter Agreement at page 2,
9 lines 24-25]

10 Thus, by their own documentation, the parties to the Infrastructure Agreement
11 expressly acknowledged as of November 24, 1998 the Commission had not approved the
12 Infrastructure Agreement.

13 **C. Decision No. 63445 (March 13, 2001).**

14 On May 8, 2000, the parties to the Infrastructure Agreement entered into the First
15 Amendment thereto. Thereafter, on May 26, 2000, and in accordance with the 45-day
16 deadline provided for in the November 24, 1998 Letter Agreement, Citizens filed a Joint
17 Application with the Commission in which Citizens requested that the Commission
18 (i) extend the water and wastewater service CC&N granted in Decision No. 60975 to
19 include the 195-acre Jacka Parcel, and (ii) approve the First Amendment to the
20 Infrastructure Agreement.

21 On March 13, 2001, following a one (1)-day evidentiary hearing on the aforesaid
22 Joint Application, the Commission issued its Decision No. 63445. At various places within
23 the language of the decision, the Commission expressed its apparent understanding as to
24 the limited nature of the First Amendment:

25 "The purpose of the First Amendment is to include the Jacka
26 Parcel as part of the [Anthem] Project." [Decision No. 63445
27 at page 3, lines 14-15] [emphasis added]

28 "In addition to the requested CC&N extension, the Applicants
also submitted for approval a copy of their First Amendment.
The purpose of the First Amendment is to include the Jack
Parcel and address the purchase of water from the Ak-Chin
Tribe." [Decision No. 63445, Finding of Fact Nos. 16 and 17,
page 5 at lines 15-18] [emphasis added]

1 Accordingly, and on the basis of that understanding upon its part, the Commission
2 approved the First Amendment to the Infrastructure Agreement when it issued Decision
3 No. 63445.

4 However, by its very nature the language of that decision did not extend to nor
5 constitute a review and approval of the substantive provisions of the Infrastructure
6 Agreement itself. Moreover, any uncertainty as the limited nature and scope of the
7 Commission's approval in Decision No. 63445 was expressly clarified by the Commission
8 approximately fifteen (15) months later when it issued its Decision No. 64897 on June 5,
9 2002.

10 **D. Decision No. 64897 (June 5, 2002).**

11 On December 13, 2000, Citizens filed a Joint Application with the Commission in
12 which it set forth several requests, including a request that the Commission approve the
13 Infrastructure Agreement and the First and Second Amendments thereto. Once again,
14 Citizens asserted that

15 " . . . the provisions of . . . the Infrastructure Agreement (as
16 amended by the First Amendment and the Second Amendment
17 thereto) . . . are reasonable and in the public interest . . ." [Joint
Application at page 5, lines 19-22]; and,

18 once again, the Commission declined to act upon Citizens request for review and approval
19 of the substantive provisions of the Infrastructure Agreement.

20 More specifically, and by way of background, in a December 4, 2001 Commission
21 Staff Report discussing the above-referenced Joint Application,⁷ the Commission's Staff
22 offered the following observations and recommendations in connection with the
23 Infrastructure Agreement and the subsequent amendments thereto:

24 "(4) The Anthem infrastructure agreement, dated September
25 29, 1997, is a private contract between Citizens, DistCo,

26 ⁷ The Commission Staff Report was filed in Docket Nos. WS-03454A-00-1022, WS-03455A-00-1022 and WS-
27 01032A-00-1022. The three (3) Citizens entities were (i) the original December 13, 2000 Joint Applicants (Citizens
28 Water Resources Company of Arizona and Citizens Water Services Company of Arizona) and (ii) Citizens
Communications Company, which apparently subsequently became an applicant.

1 TreatCo, Del Webb Corporation ("Webb"), and Anthem
2 Arizona, L.L.C. ("Developer"). This agreement provides
3 terms and conditions under which DistCo will provide potable
4 water distribution and wastewater collection services for
5 Anthem. TreatCo will provide water and wastewater
6 treatment services that will enable the provision of potable
7 water distribution and wastewater collection services by
8 DistCo along with the provision of non-potable water
9 distribution services by TreatCo. Additionally, the agreement
10 provides terms, conditions, and obligations for the other
11 parties to the agreement. This agreement includes unequal
12 refunding structures, cost caps, priority services, and penalties
13 that may not be in line with this Commission's standards.

14 The Commission originally chose not to consider any
15 determination regarding the requested approval of the Anthem
16 infrastructure agreement in Decision No. 60975. The
17 Commission subsequently approved the first amendment to the
18 agreement but not the infrastructure agreement itself in
19 Decision No. 63445. Since the infrastructure agreement itself
20 was not approved, approval of the amendment was apparently
21 a misunderstanding. Therefore, Staff does not recommend
22 that the Commission consider approval of the infrastructure
23 agreement and its amendments. The Commission protects its
24 rights to set rates and conditions it deems necessary to protect
25 public interests by declining to approve this infrastructure
26 agreement. This agreement is a private contract and, as such,
27 does not require Commission approval or denial. Staff
28 recommends that no action be taken on this issue. [Staff
Report at page 3, lines 7-28] [emphasis added]

* * *

17 "Staff recommends that a complete legal review of all the
18 agreements and the amendments be performed, in the event
19 that the Commission chooses to take action on the
20 aforementioned agreements and amendments, prior to such
21 action." [Staff Report at page 4, lines 7-9] [emphasis added]

* * *

21 "(4) Staff further recommends that the Commission take no
22 action on the Anthem water/wastewater infrastructure
23 agreement and its amendments. Staff believes that
24 Commission approval is not necessary." [Staff Report at page
4, lines 19-21]

25 On June 4, 2002, the ACC issued Decision No. 64897 in the proceeding in question. The
26 following excerpts clearly indicate that the ACC followed the recommendation of the ACC
27 Staff:

1 "We agree with Staff that there was no intent in Decision No.
2 63445 to approve the substance of the original Infrastructure
3 Agreement. In Decision No. 60975, the Commission adopted
4 Staff's recommendation to "not consider any determination
5 regarding the requested approval of the Infrastructure
6 Agreement" (Decision No. 60975, at 6, 15). In Decision No.
7 63445, the Commission, in approving the First Amendment,
8 specifically stated that "[t]he purpose of the First Amendment
9 is to include the Jacka Parcel as part of the Project" (Decision
10 No. 63445, at 3). There was no further discussion of any other
11 aspect of the Infrastructure Agreement in that Decision and no
12 indication by the Commission that any of the other terms or
13 conditions of the original Infrastructure Agreement were being
14 approved. Reading the Decisions *in pari materia* leads to the
15 conclusion that the Commission did not intend to approve any
16 part of the Infrastructure Agreement, except for the First
17 Amendment's addition of the Jacka Parcel to Citizens'
18 certificated territory.

19 There are other reasons for declining to approve the
20 Infrastructure Agreement in this proceeding. Staff points out
21 that the Agreement is a private contract between the
22 Companies and a third party developer that contains "unequal
23 refunding structures, cost caps, priority services, and
24 penalties" that may be inconsistent with the Commission's
25 standards (Staff Report at 3). According to Staff, the
26 Infrastructure Agreement does not require the Commission's
27 approval and, by not making a determination regarding the
28 Agreement, the Commission "protects its rights to set rates
and conditions it deems necessary to protect public interest"
(Id.). [Decision No. 64897 at page 6, lines 1-18] [emphasis
added]

18 Accordingly, on three (3) separate occasions Citizens had requested Commission review
19 and approval of the substantive (including refund obligation) provisions of the
20 Infrastructure Agreement and subsequent amendments thereto; and, on three (3) separate
21 occasions the Commission expressly declined to do so.

22 E. Decision No. 70372 (June 13, 2008).

23 The next Commission proceeding in which the Infrastructure Agreement and
24 amendments appear to have been referenced was a 2005 test period rate case proceeding
25 which involved AAWC, the successor-in-interest to Citizens under the Infrastructure
26 Agreement. In that regard, by means of a December 12, 2002 Third Amendment to the
27 Infrastructure Agreement, Del Webb, its affiliate Anthem Arizona, L.L.C. and AAWC
28 expressly acknowledged the assignment to AAWC of the rights (and obligations) of the

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1 Citizens parties under the Infrastructure Agreement; and, they "ratified, confirmed and
2 approved" the Infrastructure Agreement, except as amended by the Third Amendment as to
3 other matters not pertinent to the instant analysis.

4 Under the section heading of "Other Issues," the Infrastructure Agreement and
5 related amendments were discussed at pages 36-43 of Decision No. 70372. In that regard,
6 the following excerpts from that decision delineate the manner in which the subject of the
7 Infrastructure Agreement was addressed:⁸

8 "Public comments, both oral and written, in opposition to the
9 rate increase requested by Arizona-American's application
10 expressed displeasure that the Company's proposed rates
11 reflect repayment by Arizona-American to Pulte for
12 infrastructure costs paid by Pulte, and particularly, that
13 existence of the advances was not disclosed to homebuyers at
14 the time of purchase." [Decision No. 70372 at page 40, lines
15 12-15] [emphasis added]

16 * * *

17 "Staff states on brief that it believed it important in this case
18 to develop a record on the Anthem Agreements and their
19 impact upon utility rates, because of the likelihood that Pulte
20 will have exited the development by the time Arizona-
21 American files its next rate case for the districts. Staff
22 believes that the two most significant issues raised in this
23 proceeding in regard to the Anthem Agreements were notice
24 to ratepayers regarding the allocation of water infrastructure
25 costs, and the reasonableness of the agreement to refund 100
26 percent of those costs to Pulte. Staff points out that Pulte
27 agreed to further concessions in the Fourth Amendment
28 because of concerns raised by Commissioners during the
hearings in this case. Staff further points out that the
agreements between the Company and the developer have
never been approved by the Commission, and that the
Commission may wish to address the reasonableness of the
Company's agreement to refund to Pulte almost all of the
water infrastructure costs either in this case, or in the next
rate case the Company files for these districts, because the
next rate case will likely address the issue of the remaining
payment to Pulte" [Decision No. 70371 at page 40, line 17-
page 41, line 1] [emphasis added]

⁸ In that regard, for purposes of the instant analysis, the terms Infrastructure Agreement (and subsequent amendments) and Anthem Agreements are synonymous.

1 However, ultimately, the Commission did not resolve either of the two (2) aforementioned
2 issues, nor any other issues regarding the status or ratemaking treatment of the
3 Infrastructure Agreement and the amendments thereto, as indicated by the following
4 statements:

5 "At this time, no party has alleged, and we do not find, that the
6 Company's repayment of developer advances under the
7 Anthem Agreement has been imprudent or improper."
8 [Decision No. 70372 at page 43, lines 11-13] [emphasis
9 added]

10 "[However,] Our determination in this case is not intended to
11 have any bearing on our determination in any subsequent case
12 filed by the Company for these districts regarding the
13 reasonableness of the Company's agreement to refund to Pulte
14 almost all of the costs required to construct Anthem's water
15 infrastructure." [Decision No. 70372 at page 43, lines 20-23]
16 [emphasis added]

17 Thus, in effect, the Commission "teed up" that issue for consideration in the instant
18 proceedings, as well as any other issues regarding the status or ratemaking treatment of the
19 Infrastructure Agreement and amendments thereto; and, as a party in the instant
20 proceedings, Anthem has decided to raise those issues at this time.

21 III.

22 CITIZENS AND AAWC HAVE FAILED TO OBTAIN THAT APPROVAL 23 OF THE INFRASTRUCTURE AGREEMENT REQUIRED BY ARIZONA 24 LAW AND THE COMMISSION'S RULES AND REGULATIONS⁹

25 A. Failure to Comply with A.R.S. §§ 40-301 et seq.

26 I. Relevant Statutory Background

27 The legal ability of a public service corporation to incur long-term financial
28 obligations and to issue evidence of indebtedness is subject to regulation and prior approval

⁹ None of the four (4) amendments to the Infrastructure Agreement create the predicate financial obligation which is the subject of the analysis set forth in Section II(A) of this Pre-Hearing Memorandum. Moreover, to the extent any of the Amendments have a bearing upon such predicate financial obligation, this Section III clearly demonstrates that the Commission also has not approved any of the Amendments. Accordingly, in the interest of brevity, the reference herein will be only to the Infrastructure Agreement itself in connection with such analysis.

1 by the Commission, as indicated by the following statutory provisions:

2 "40-301. Issuance of stocks and bonds; authorized purposes

3 A. The power of public service corporations to issue stocks
4 and stock certificates, bonds, notes and other evidences of
5 indebtedness, and to create liens on their property located
6 within this state is a special privilege, the right of supervision,
7 restriction and control of which is vested in the state, and such
8 power shall be exercised as provided by law and under rules,
9 regulations and orders of the commission.

10 B. A public service corporation may issue stocks and stock
11 certificates, bonds, notes and other evidences of indebtedness
12 payable at periods of more than twelve months after the date
13 thereof, only when authorized by an order of the commission.

14 C. The commission shall not make any order or supplemental
15 order granting any application as provided by this article
16 unless it finds that such issue is for lawful purposes which are
17 within the corporate powers of the applicant, are compatible
18 with the public interest, with sound financial practices, and
19 with the proper performance by the applicant of service as a
20 public service corporation and will not impair its ability to
21 perform that service." [emphasis added]

22 *

23 *

24 *

25 "40-302. Order authorizing issuance of stocks, bonds or other
26 evidences of debt; hearing on application to issue; amount of
27 issue; issuance of short term notes without commission order;
28 capitalization of certain items prohibited; accounting for
proceeds of issues

A. Before a public service corporation issues stocks and stock
certificates, bonds, notes and other evidences of indebtedness,
it shall first secure from the commission an order authorizing
such issue and stating the amount thereof, the purposes to
which the issue or proceeds thereof are to be applied, and that,
in the opinion of the commission, the issue is reasonably
necessary or appropriate for the purposes specified in the
order, pursuant to section 40-301, and that, except as
otherwise permitted in the order, such purposes are not, wholly
or in part, reasonably chargeable to operative expenses or to
income. Before an order is issued under this section, notice of
the filing of the application for such order shall be given by
the commission or the applicant in such form and manner as
the commission deems appropriate. The commission may hold
a hearing, and make inquiry or investigation, and examine
witnesses, books, papers and documents, and require filing
data it deems of assistance.

B. The commission may grant or refuse permission for the
issue of evidences of indebtedness or grant the permission to
issue them in a lesser amount, and may attach to its permission
conditions it deems reasonable and necessary. The
commission may authorize issues less than, equivalent to or
greater than the authorized or subscribed capital stock of the
corporation, and the provisions of the general laws of the state

1 with reference thereto have no application to public service
2 corporations." [emphasis added]

3 * * *

4 "40-303. Validity of stock certificates or evidences of
5 indebtedness: violation of law or commission authorizations;
6 classification

7 A. All stock and every stock certificate, and every bond, note
8 or other evidence of indebtedness of a public service
9 corporation, issued without a valid order of the commission
10 authorizing the issue, or if issued with the authorization of the
11 commission but not conforming to the order of authorization
12 of the commission, is void, but no failure in any other respect
13 to comply with the terms or conditions of the order of
14 authorization of the commission shall make the issue void,
15 except as to a person taking the issue other than in good faith
16 and for value and without actual notice." [emphasis added]

17 2. "Evidence of Indebtedness"

18 The Infrastructure Agreement is unequivocally "evidence of indebtedness" upon the
19 part of Citizens, and upon the part of AAWC as Citizens successor-in-interest thereunder.

20 In that regard, Recital "F" of the Infrastructure Agreement provides that

21 "With respect to the costs associated with obtaining those
22 water rights and constructing that infrastructure [necessary to
23 provide potable water distribution and wastewater collection
24 services, and water and wastewater treatment services] the
25 Parties¹⁰ desire that:

26 [i] The Citizens Parties will fund up to \$24,000,000 of
27 those costs

28 [ii] The Webb Parties will fund the balance of the costs.

[iii] The Parties will be reimbursed for those costs."
[emphasis added]

The allocation of responsibility among the Parties for constructing such infrastructure is set
forth in another table included within the Infrastructure Agreement, a copy of which is
attached hereto as Appendix "C," and is incorporated herein by this reference.¹¹ Attached

¹⁰ Attached hereto as Appendix "B" and incorporated herein by this reference is a copy of a table included within the Infrastructure Agreement, which identifies and defines for purposes of the Infrastructure Agreement each of the legal entities which comprise the "Webb Parties" and the "Citizens Parties," respectively. The "Webb Parties" consist of Del Webb Corporation ("Webb") and The Villages of Desert Hills, Inc. ("Developer"). The Citizens Parties consist of Citizens Utilities Company ("Citizens"), Citizens Water Services Company of Arizona ("DistCo") and Citizens Water Resources Company of Arizona ("TreatCo").

¹¹ In that regard, Sections 2.5 and 2.7 of the Infrastructure Agreement obligate Developer to design, construct and

1 hereto as Appendix "D" and incorporated herein by this reference is a copy of a third table
2 included within the Infrastructure Agreement which depicts responsibility for certain of the
3 advances and reimbursement thereof which are contemplated by the Infrastructure
4 Agreement.

5 Article III of the Infrastructure Agreement prescribes payment of advances and
6 refund obligations among the parties. In that regard, and as relevant to the instant analysis,
7 Section 3.1(c)-(e) provide as follows:

8 "c. Payment Obligations of the Citizens Parties.

9 The following are among the monetary obligations of the
10 Citizens Parties under this Agreement:

11 i. TreatCo will reimburse Developer for Construction
12 Costs for the Phase I Facilities and the Backbone Facilities, for
13 costs associated with acquiring certain real property interests
14 and utility easements, and for the Ak-Chin Water Lease Costs
15 (i.e., the amounts described in clauses (a) (i) through (a)
16 (iv) above). (The reimbursement procedure is described in
17 Section 8.12.)

18 ii. TreatCo will pay to third parties Construction Costs
19 for the Subsequent Facilities (as described in Section 8.6).

20 iii. The maximum aggregate amount to be reimbursed
21 or paid by TreatCo under and for purposes described in
22 clauses (i) and (ii) above will not exceed \$24,000,000.

23 iv. Citizens must pay to TreatCo the amounts described
24 in clauses (i) and (ii) above.

25 v. The maximum aggregate amount to be paid by
26 Citizens under and for the purposes described in clause
27 (iv) will not exceed \$24,000,000.

28 vi. In addition, TreatCo will refund Advances (as
described in paragraph (e) below).

d. Citizens Advances. For purposes of this Agreement,
20 "Citizens Advances" means the amounts described in clause
21 (c) (iv) above that are paid by Citizens.

22 e. Refunds of Advances. In accordance with Exhibit B:¹²

23 i. TreatCo will refund to Developer the Developer's
24 Advances.

25 ii. TreatCo will refund to Citizens the Citizens'
26 Advances. [emphasis added]

27 transfer to TreatCo (i) the Phase I Off-Site Facilities, (ii) the Phase I Production and Treatment Facilities, and (iii) the
28 Backbone Facilities necessary to extend water and wastewater services to the Villages at Desert Hills (Anthem)
Project.

¹² A copy of the refund formula attached to the Infrastructure Agreement as Exhibit B is attached hereto as Appendix
"E" and is incorporated herein by this reference.

1 In addition, Section 3.3(d)-(h) of the Infrastructure Agreement provide in pertinent part as
2 follows:

3 "d. Notwithstanding the foregoing, the amount that Developer
4 will pay TreatCo under paragraph (c) above will not exceed
5 the amount of the unrefunded Citizens' Advances at the
6 Performance Date.

7 e. Promptly upon receipt of a payment from Developer under
8 paragraph (c) above, TreatCo will pay Citizens, as an
9 accelerated Refund, the amount so received. Upon that
10 payment to Citizens, TreatCo will cause its records to reflect
11 the change in the outstanding amounts, by reducing the
12 Citizens' Advances and increasing the Developer's Advances
13 by the amounts so received by TreatCo from Developer.

14 f. All Refunds made by TreatCo after the Performance Date
15 will be made to Citizens 100%, until all of Citizens' Advances
16 have been refunded. If necessary to ensure that Citizens does
17 not received a Refund in excess of its unrefunded Citizens'
18 Advances, TreatCo will prorate a Refund between Citizens
19 (under this paragraph (f)) and Developer (under paragraph (g)
20 below).

21 g. Once all of Citizens' Advances have been refunded, 100%
22 of the future Refunds by TreatCo will be made to Developer.

23 h. As modified in paragraphs (e) through (g) of this Section,
24 the obligation of TreatCo to make Refunds under Exhibit B
25 will continue." [emphasis added]

26 The Merriam-Webster Dictionary¹³ defines "indebted" as "owing money," and,
27 "indebtedness" represents a form of being "indebted." In that regard, it is abundantly clear
28 from the preceding analysis that Citizens and TreatCo each contractually obligated itself to
pay Developer, third parties and one another certain amounts of money over a period of
time in excess of twelve (12) months. As a consequence, the Infrastructure Agreement
unequivocally constitutes "evidence of indebtedness," as contemplated within the language
and intent of A.R.S. §§ 40-301 *et seq.* The fact that such amounts were to be prospectively
quantified by means of the refund payment formula set forth in Exhibit B to the
Infrastructure Agreement does not in any manner alter the fact that the Infrastructure
Agreement itself was "evidence of indebtedness" requiring prior Commission approval

¹³ See <http://www.merriam-webster.com/>.

1 pursuant to A.R.S. §§ 40-301(A) and 40-302(A). The ratemaking consequences of the
2 failure to obtain the requisite prior approval, when examined within the context of the
3 instant proceedings, are discussed in Section III(A) (4) of this Pre-Hearing Memorandum.

4 3. "Private Contract"

5 Characterization

6 In both the December 4, 2001 Commission Staff Report in Docket Nos. WS-
7 03454A-00-1022, WS-03455A-00-1022 and WS-01032A-00-1022, and in the
8 Commission's subsequent June 4, 2002 Decision No. 64987 in those dockets, the
9 Infrastructure Agreement was characterized as a "private contract" not requiring
10 Commission approval at that time. Anthem respectfully submits that the conclusion
11 resulting from that characterization was in error.

12 More specifically, the fact that the signatory parties to the Infrastructure Agreement,
13 which created the obligation(s) of Citizens and TreatCo to make refunds over an extended
14 period of time, were private parties does not mean that the Infrastructure Agreement was
15 not in the nature of "evidence of indebtedness," as contemplated by A.R.S. §§ 40-301 *et*
16 *seq.* Both Citizens and TreatCo were public service corporations under Arizona law, as
17 attested to by the OC&Ns granted to them by the Commission's June 19, 1998 Decision
18 No. 60975 in connection with the inception of the Villages at Desert Hills (Anthem)
19 Project; and, thus they were subject to the requirements of A.R.S. §§ 40-301 *et seq.* for
20 prior Commission approval of the financial obligations created by the Infrastructure
21 Agreement.

22 In that regard, for purposes of an A.R.S. §§ 40-301 *et seq.* requirements analysis, a
23 meaningful distinction exists between the instant fact situation and a scenario under which
24 an Arizona public service corporation first obtains Commission approval to incur long-term
25 indebtedness and thereafter executes one (1) or more agreements providing for creation of
26 the authorized indebtedness. In each instance, the parties to the financing agreement(s) are
27 private entities, and the agreements might correctly be characterized as "private contracts."
28 Similarly, both the Infrastructure Agreement and the above-hypothecated subsequently-

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1 executed financing agreement(s) are each "evidence of indebtedness" within the context of
2 A.R.S. §§ 40-301 *et seq.* The crucial distinction, however, is the fact that, in the
3 circumstances of the Infrastructure Agreement, the requisite prior Commission approval
4 was not, and never has been obtained. That distinction cannot be ignored; and, that failure
5 cannot be legally excused under A.R.S. §§ 40-301 *et seq.* simply because the signatory
6 parties to the Infrastructure Agreement are private entities.

7 Finally, it should be noted that the "private contract" between the Webb Parties and
8 the Citizens Parties was one with substantial public interest implications, given the refund
9 obligations which were being incurred by Citizens and TreatCo thereunder. A.R.S. §§ 40-
10 301(C) contemplates that the Commission shall determine whether the proposed
11 indebtedness

12 "... is for lawful purposes which are ... compatible with the
13 public interest ..."

14 In this instance, that determination has never been made with regard to the several
15 advances and refund arrangements provided for in the Infrastructure Agreement; and, given
16 the concern expressed by the Commission's Staff in the aforesaid December 4, 2001
17 Commission Staff Report, and reiterated by the Commission in Decision No. 64897 with
18 regard to

19 "... unequal refunding structures [in the Infrastructure
20 Agreement] ... that may be inconsistent with the Commission
21 standards." [Decision No. 64897 at page 6, lines 14.3-15.3]
[emphasis added]

22 a serious question exists as to whether the Commission would have approved the
23 Infrastructure Agreement had the Citizens Parties properly presented it to the Commission
24 on those several occasions when they "generally" requested Commission approval of the
25 same.

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1 Having failed on several occasions to obtain Commission approval of the
2 Infrastructure Agreement, Citizens nevertheless proceeded to incur and discharge its
3 financial obligations thereunder.¹⁴ Subsequently, by means of its December 12, 2002
4 execution of the Third Amendment to the Infrastructure Agreement, AAWC expressly
5 acknowledged and

6 "...ratified, confirmed and approved ..."
7 its financial obligations to Del Webb under the Infrastructure Agreement as Citizens
8 successor-in-interest; and, AAWC presumably did so with the knowledge that
9 approximately six (6) months earlier the Commission had indicated its concern in Decision
10 No. 64897 with

11 "...unequal refunding structures [in the Infrastructure
12 Agreement] ... that may be inconsistent with the Commission
13 standards." [Decision No. 64897 at page 6, lines 14.5-15.5]
[emphasis added]

14 Given the foregoing discussion, it is reasonable to conclude that both Citizens and
15 AAWC knowingly elected to proceed "at risk" with regard to whether or not any refund
16 payments they made to Webb or Pulte should be accorded (i) inclusion in rate base and
17 (ii) related ratemaking recognition in subsequent rate cases. In that regard, the issue of
18 failure to comply with the requirements of A.R.S. §§ 40-301 *et seq.* does not appear to have
19 been raised in any previous rate proceedings involving the Anthem Water District and the
20 Anthem/Agua Fria Wastewater District. However, Anthem is raising it in the instant

21
22 ¹⁴ In that regard, Section 14.16 of the Infrastructure Agreement provides that

23 "This Agreement is subject to approval by the Commission on or before August
24 15, 1998."

25 As noted above in Section II(A) of this Pre-Hearing Memorandum, in its June 19, 1998 Decision No. 60975, the
26 Commission expressly declined to grant Citizens' request for approval of the Infrastructure Agreement. Thereafter,
27 that failure to obtain such approval was acknowledged in the November 24, 1998 Letter Agreement between Citizens,
28 Del Webb and Anthem Arizona, L.L.C.; and, provision was made for Citizens to renew its request for approval within
45 days after execution of the contemplated First Amendment to the Infrastructure Agreement. That subsequent
request for renewal was a subject of Decision No. 63445, as discussed in Section II(C) above; and, as discussed in
Section II(D) above, in its June 5, 2002 Decision No. 64897, the Commission expressly stated that at no time
(including in Decision No. 63445) had it ever approved the Infrastructure Agreement.

proceedings; and, it is Anthem's position that disputed refund payments to Pulte should (i) be permanently excluded from AAWC's rate base and (ii) not accorded any related ratemaking recognition by reason of such failure.

B. Failure To Comply With A.A.C. R14-2-406.

I. Relevant Regulatory Background

A.A.C. R14-2-406 of the Commission's rules and regulations for water utilities governs the subject of Main Extension Agreements, as well as off-site and "backbone" facilities in connection with the provision of water service. In that regard, A.A.C. R14-2-406 provides in pertinent part as follows:

"R14-2-406. Main extension agreements

A. Each utility entering into a main extension agreement shall comply with the provisions of this rule which specifically defines the conditions governing main extensions.

B. An applicant for the extension of mains may be required to pay to the Company, as a refundable advance in aid of construction, before construction is commenced, the estimated reasonable cost of all mains, including all valves and fittings.

1. In the event that additional facilities are required to provide pressure, storage or water supply, exclusively for the new service or services requested, and the cost of the additional facilities is disproportionate to anticipated revenues to be derived from future consumers using these facilities, the estimated reasonable cost of such additional facilities may be included in refundable advances in aid of construction to be paid to the Company. [emphasis added]

D. Refunds of advances made pursuant to this rule shall be made in accord with the following method: the Company shall each year pay to the party making an advance under a main extension agreement, or that party's assignees or other successors in interest where the Company has received notice and evidence of such assignment or succession, a minimum amount equal to 10% of the total gross annual revenue from water sales to each bona fide consumer whose service line is connected to main lines covered by the main extension agreement, for a period of not less than 10 years. Refunds shall be made by the Company on or before the 31st day of August of each year, covering any refunds owing from water revenues received during the preceding July 1st to June 30th period. A balance remaining at the end of the ten-year period set

1 out shall become non-refundable, in which case the
2 balance not refunded shall be entered as a contribution in
3 aid of construction in the accounts of the Company,
4 however, agreements under this general order may provide
5 that any balance of the amount advanced thereunder
6 remaining at the end of the 10 year period set out, shall
7 thereafter remain payable in whole or in part and in such
8 manner as is set forth in the agreement. The aggregate
9 refunds under this rule shall in no event exceed the total of
10 the refundable advances in aid of construction. No interest
11 shall be paid by the utility on any amounts advanced. The
12 Company shall make no refunds from any revenue
13 received from any lines, other than customer service lines,
14 leading up to or taking off from the particular main
15 extension covered by the agreement.

16 E. Amounts advanced in aid of construction of main
17 extensions shall be refunded in accord with the rules of
18 this Commission in force and effect on the date the
19 agreement therefor was executed. All costs under main
20 extension agreements entered into after the adoption of
21 this rule shall be refunded as provided herein." [emphasis
22 added]¹⁵

23 * * *

24 M. All agreements under this rule shall be filed with and
25 approved by the Utilities Division of the Commission. No
26 agreement shall be approved unless accompanied by a
27 Certificate of Approval to Construct as issued by the
28 Arizona Department of Health Services. Where
agreements for main extensions are not filed and approved
by the Utilities Division, the refundable advance shall be
immediately due and payable to the person making the
advance."¹⁶ [emphasis added]

15 The provisions of R14-2-406 discussed in Section III(B) of this Pre-Hearing Memorandum have not changed in substantive content since the regulation was adopted by the Commission and became effective on March 2, 1982.

16 The Commission's regulation (A.A.C. R14-2-606) governing sewer collection main extension agreements adopts a different approach with regard to advances in-aid-of construction and refunds. This approach includes reference to the utility's sewer extension tariff, a maximum footage and/or equipment allowance, and an economic feasibility analysis for sewer main extensions in excess of the maximum footage and/or equipment allowance. No such economic feasibility analysis appears to have been submitted in connection with the original request for Commission approval of the Infrastructure Agreement. Moreover, the timeline for and content of the refined formula set forth in Exhibit B to the Infrastructure Agreement do not comply with A.A.C. R14-2-606(C)(5), which provides:

"If after five years from the utility's receipt of the advance, the advance has not been totally refunded, the advance shall be considered a contribution in aid of construction and shall no longer be refundable." [emphasis added]

Thus, even if it be assumed for discussion purposes that express Commission approval of the Infrastructure Agreement refund arrangement for sewer and wastewater infrastructure was not required, a waiver of or variance from A.A.C. R14-2-606(C)(5) would have been necessary; and, there is no record of such a waiver or variance ever having been granted by the Commission. Accordingly, all funds advanced for sewer and wastewater infrastructure which had not

2. Nature of the
Infrastructure Agreement

A careful examination of the Infrastructure Agreement readily discloses that (i) it embraces the concepts of (a) a main extension agreement and (b) an agreement for the funding of off-site or "backbone" facilities to be constructed in connection with both the initial development and the ultimate build-out of the Villages at Desert Hills (Anthem) Project; and, (ii) it provides for refunding of amounts advanced by both the Developer and Citizens. Examples of these concepts and related provisions are found in Recital "F," Section 3.1(c)-(e) and Section 3.2(d)-(h) of the Infrastructure Agreement, which were discussed in Section III(A)(2) above of this Pre-Hearing Memorandum, as well as in the Infrastructure Agreement charts and refund formula attached hereto as Appendices "B" through "E."

3. Failure to Obtain
Approval Pursuant to A.A.C. R14-2-406(M)

A.A.C. R14-2-406(M) expressly provides that agreements such as the Infrastructure Agreement must be filed with and approved by the Commission's Utilities Division. The discussion set forth above in Section II(A) of this Pre-Hearing Memorandum establishes without a doubt that the Infrastructure Agreement has never been approved by either the Commission or its Utilities Division. The fact that on previous occasions the Commission's Staff may have recommended that the Commission not act on a request for approval neither alters nor mitigates the fact that the requisite prior approval of the Commission has never been obtained.¹⁷

been refunded within five (5) years from the date of advance became contributions in-aid-of construction, and thus were no longer subject to refund.

¹⁷ In that regard, it is to be noted that in this context the Commission's own regulation requires prior approval of the "private contract" between the original parties to the Infrastructure Agreement, as well as their respective successors-in-interest. Thus, in this context, the "private contract" rationale relied upon by the Commission and its Staff in connection with Decision No. 64897 (discussed in Sections II(D) and III(A)(3) above) was inconsistent with the Commission's own regulation. As previously discussed in Section III(A)(3) above, the "private contract" rationale
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1 4. Ratemaking Consequences

2 Of Failure to Obtain Requisite A.A.C. R14-2-406 Approval

3 A.A.C. R14-2-406(D) prescribes a 10 percent/10 year refund formula that is to be
4 used as a guideline for the refund of advances in-aid-of construction. It also allows for
5 alternative refund arrangements, provided that the prior Commission approval of the refund
6 arrangement required by A.A.C. R14-2-406(M) has been obtained. In addition, A.A.C.
7 R14-2-406 requires that advances made under the provisions of an agreement which has
8 not been previously approved

9 "... shall be immediately due and payable to the person
10 making the advance."

11 Thus, the question to be addressed at this time is what should be the ratemaking
12 consequence of the failure of Citizens and AAWC to obtain that prior approval of the
13 Infrastructure Agreement required under A.A.C. R14-2-406, given that (i) the refund
14 formula provided for in the Infrastructure Agreement is substantially different from the
15 guideline set forth in A.A.C. R14-2-406(D), and (ii) virtually all of the funds advanced
16 under the Infrastructure Agreement have already been refunded. Anthem submits that the
17 appropriate means for resolving that question is to (i) permanently exclude from AAWC's
18 rate base, and (ii) deny any associated ratemaking recognition of the disputed refund
19 payments made by AAWC to Pulte.¹⁸

20 More specifically, while the language of A.A.C. R14-2-406(D) suggests that there
21 may be variations of the 10 percent/10 year formula therein prescribed, A.A.C. R14-2-
22 406(M) clearly indicates that approval of such variation by the Commission's Utilities
23 Division is a regulatory prerequisite to implementation of the same. In this instance, such

24
25 cannot and does not legally excuse the failure of both Citizens and AAWC to comply with the prior approval
26 requirement of A.R.S. §§ 40-301 et seq.

27 ¹⁸ The same question and suggested means for resolution apply by analogy to their failure to obtain a "waiver" of the
28 otherwise automatic conversion of an advance to a contribution in-aid-of construction provision under A.A.C. R14-2-
29 606(C)(5).

1 approval was never obtained by Citizens or AAWC.¹⁹ Moreover, as discussed in Section
2 II(D) above of this Pre-Hearing Memorandum, in both (i) a December 4, 2001 Commission
3 Staff Report, and (ii) the Commission's June 5, 2002 Decision No. 64897, a concern was
4 expressed that the Infrastructure Agreement contained

5 "... 'unequal refunding structures ... that may be inconsistent
6 with the Commission's standards. (Staff Report at 3)."
7 [Decision No. 64897 at page 6, lines 14.5-15.5] [emphasis
8 added]

9 As a consequence, it is reasonable to conclude that the Commission might never have
10 approved the refunding arrangement and formula provided for in the Infrastructure
11 Agreement, particularly since it contemplated and provided for a refund of virtually all of
12 the funds advanced under the Infrastructure Agreement without a supporting economic
13 feasibility analysis.

14 In that regard, A.A.C. R14-2-406(B) expressly recognizes that, in certain situations,

15 "... the cost of the additional [backbone] facilities is
16 disproportionate to anticipated revenues to be derived from
17 future customers using these facilities. . . ."

18 and, A.A.C. R14-2-406(M) requires that any proposed treatment of such additional costs as
19 refundable advances in-aid-of construction be subject to the requirement of prior
20 Commission approval. The prospect that "additional costs" of this nature were
21 contemplated by the original parties to the Infrastructure Agreement is confirmed by the
22 language of the agreement itself:

23 "2.10 Risk Borne by TreatCo. As provided in this Agreement,
24 TreatCo will bear (by funding up to \$24,000,000 of Phase I
25 Facilities, Backbone Facilities, Subsequent Facilities and
26 related costs, by certain rate moratoriums, rate-of-return cap
27 guarantees, and by the use of deferred depreciation methods) a
28 portion of the risk that the Project will not be developed as
quickly as anticipated by the Parties. As a result, initial DistCo
rates will be lower than if established under more traditional
Commission rate-setting principles and customers will not be
asked to bear the cost of prudent investment for future service

¹⁹ Similarly, an exception to the five (5)-year refund period, which A.A.C. R14-2-606(C)(5) effectively imposes upon sewer collection main extension agreements, would also require an exception by the Commission in the form of a "waiver" or "variance." As noted above, it appears such a "waiver" or "variance" has never been obtained.

1 if actual customer additions occur at rates that are less than
2 projected customer additions." [Infrastructure Agreement at
page 5] [emphasis added]

3 As indicated in Section III(A)(2) above of this Pre-Hearing Memorandum, pursuant to
4 Section 3.1(c)-(e) and Section 3.3(d)-(h) of the Infrastructure Agreement, virtually all of
5 the funds advanced by Developer and TreatCo for these "additional facilities" were
6 intended to ultimately be refunded to those entities through operation of the refund formula
7 attached to the Infrastructure Agreement as Exhibit B, which is in marked contrast to the 10
8 percent/10 year refund guideline set forth in A.A.C. R14-2-406(D).²⁰ Moreover, as also
9 noted above, the Commission has never approved the Exhibit B refund formula. Rather,
10 both the Commission and the Commission Staff have expressed concern with regard to the
11 "unequal refunding structures" provided for under the Infrastructure Agreement and
12 Exhibit B.

13 In addition, the "immediate refund" sanction provided for in A.A.C. R14-2-406(M),
14 in the event of the affected public service corporation's failure to obtain the prerequisite
15 prior approval, is of no significance in the current situation. That is because virtually all of
16 the funds to be refunded pursuant to the Infrastructure Agreement and refund formula have
17 already been refunded. Given this circumstance, an appropriate regulatory sanction would
18 be (i) permanent exclusion from AAWC's rate base and (ii) denial of related ratemaking
19 recognition of the disputed refund payments made by AAWC to Pulte.²¹

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26 ²⁰ Similarly, the twelve (12)-year refund period provided for in the November 24, 1998 Letter Agreement, discussed in
Section II(B) above, clearly and substantially exceeds the five (5) year refund period provided for in A.A.C. R14-2-
606(C)(5).

27 ²¹ In that regard, such permanent exclusion from rate base and denial of ratemaking recognition would appear to also
28 be consistent with the ratemaking treatment prescribed in A.A.C. R14-2-606(C)(5).

IV.

**CITIZENS AND AAWC HAVE EACH ACTED UNREASONABLY,
IMPRUDENTLY, AND IMPROPERLY BY (I) FAILING TO OBTAIN THE
REQUISITE PRIOR COMMISSION APPROVAL OF THE INFRASTRUCTURE
AGREEMENT, AND (II) MAKING REFUND PAYMENTS ON THE
BASIS OF ASSUMED LEGAL OBLIGATIONS**

Both Citizens and AAWC are well-established and multi-state utility enterprises, and each has a history of years of experience in the regulated monopoly context which antedates the September 29, 1997 Infrastructure Agreement. Each has the financial wherewithal to employ or retain competent legal counsel to advise it as to its legal and regulatory responsibilities under Arizona law; and, each has a responsibility to both its ratepayers and investors to timely and fully discharge those responsibilities. When the history of the Infrastructure Agreement is examined between the date of its 1997 inception and the present, it becomes readily apparent that both Citizens and AAWC failed to timely and fully discharge their respective legal and regulatory responsibilities with respect to obtaining Commission approval of the Infrastructure Agreement.

In the case of Citizens, it should have specifically requested Commission approval of the Infrastructure Agreement pursuant to both A.R.S. §§ 40-301 *et seq.* and A.A.C. R14-2-406 at the time that Citizens, DistCo and TreatCo filed their October 29, 1997 Joint Application requesting authorization to provide water and wastewater service to the Villages at Desert Hills (Anthem) Project. The prior Commission approval requirements of both A.R.S. §§ 40-301 *et seq.* and A.A.C. R14-2-406 were in existence at that time and presumably known to Citizens and its legal counsel; and, specific approval pursuant to those statutory and legal provisions should have been requested, but was not.²²

²² Similarly, a "waiver" or "variance" from the provisions of A.A.C. R-14-2-606(C)(5) should have been requested, and was not.

Moreover, when the Commission initially declined to address the Infrastructure Agreement in its June 19, 1998 Decision No. 60975, the Citizens Joint Applicants should have requested rehearing and specified why receipt of the aforesaid prior Commission approvals was not only a statutory and regulatory prerequisite, but also a contractual prerequisite to their ability to proceed with the Villages at Desert Hills (Anthem) Project.²³ However, for some unknown reason, the Citizens entities elected not to do so. Similarly, as discussed in Section II(C) and (D) above of this Pre-Hearing Memorandum, the Citizen entities thereafter again failed to receive Commission approval of the Infrastructure Agreement; and, once again, they failed impress upon the Commission and its Staff the statutory and regulatory necessity of addressing the status of the Infrastructure Agreement within the specific context of A.R.S. §§ 40-301 *et seq.* and A.A.C. R14-2-406.²⁴

In the case of AAWC, it can be presumed to have known that the Commission had not approved the Infrastructure Agreement at the time it agreed to succeed to Citizens responsibilities and obligations thereunder. As noted in Section II(D) above of this Pre-Hearing Memorandum, in its March 13, 2001 Decision No. 64897, the Commission indicated that as of that date it had not approved

"... any part of the Infrastructure Agreement, except for the First Amendment's addition of the Jacka Parcel to Citizens' certificated territory." [Decision No. 64897 at page 6, lines 10.5-11.5] [emphasis added]

²³ As previously noted, Section 14.16 of the Infrastructure Agreement expressly provided that

"This Agreement is subject to approval by the Commission on or before August 15, 1998." [emphasis added]

In that regard, Section 14.16(d) provided for the amendment or termination of the Infrastructure Agreement in the absence of timely receipt of a Commission order approving the Infrastructure Agreement as contemplated by the signatory parties. The only amendment of that nature appears to have been in the form of the November 24, 1998 Letter Agreement discussed in Section II(B) above of this Pre-Hearing Memorandum; and, subsequent events clearly indicate that Del Webb never exercised its Section 14.16(d) right to terminate the Infrastructure Agreement by reason of the failure to obtain Commission approval of the same. That being the case, Citizens and AAWC each should have had added incentive to press for timely and definitive Commission action on the Infrastructure Agreement, given their substantial refund obligations thereunder.

²⁴ As well as within the context of A.A.C. R14-2-606.

1 and, the Commission had therein indicated that

2 "There are other reasons for declining to approve the
3 Infrastructure Agreement in this proceeding. [since] Staff
4 points out that the Agreement ... contains 'unequal refunding
5 structures, cost caps, priority services and penalties' that may
6 be inconsistent with the Commission standards ..." [Decision

7 No. 64897 at page 6, lines 14.5-15.5] [emphasis added]

8 Nevertheless, and despite this knowledge of the Commission's posture on the status of the
9 Infrastructure Agreement, which AAWC presumably acquired during its "due diligence"
10 relating to the contemplated acquisition of Citizens' water and wastewater assets in
11 Arizona, AAWC entered into the December 12, 2002 Third Amendment to the
12 Infrastructure Agreement pursuant to which AAWC and Del Webb stated that the
13 Infrastructure Agreement

14 "is hereby ratified, confirmed and approved"

15 except as to modifications pursuant to the Third Amendment which are not relevant to the
16 instant analysis. Moreover, AAWC thereafter proceeded to make refunds pursuant to the
17 Infrastructure Agreement and refund formula therein provided, with the knowledge that
18 (i) the same had never been approved by the Commission and (ii) the Commission was
19 expressly concerned that the Infrastructure Agreement contained

20 "... unequal refunding structures ... that may be inconsistent
21 with the Commission standards ..." [Decision No. 64897 at
22 page 6, lines 14.5-15.5] [emphasis added]

23 Further, AAWC did so with the knowledge that in Decision No. 64897 the Commission
24 also had stated that

25 "... by not making a determination regarding the
26 [Infrastructure] Agreement, the Commission 'protects its
27 rights to set rates and conditions it deems necessary to protect
28 the public interest.'" [Decision 64897 at page 6, lines 16.5-
18.5]

in some future rate proceeding. In this instance, the "public interest" is synonymous with
the financial interests of AAWC's Anthem Water District and Anthem/Agua Fria
Wastewater District ratepayers; and, that "future rate proceeding" is the instant
proceedings.

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425 NORTH DRINKWATER BLVD., 4TH FLOOR
SCOTTSDALE, ARIZONA 85251-3693

1 Against the preceding background, it can and should be concluded that both Citizens
2 and AAWC acted unreasonably, imprudently and improperly by (i) failing to explicitly
3 request and obtain the prior Commission approval of the Infrastructure Agreement required
4 by A.R.S. §§ 40-301 *et seq.* and A.A.C. R14-2-406, and (ii) proceeding to make refund
5 payments thereunder in the absence of such prior Commission approval. The Commission
6 is not in a position at this time to address the failure(s) of Citizens. However, it is in a
7 position to address the failure(s) of AAWC within the context of the instant proceedings;
8 and, it should do so by (i) permanently excluding from AAWC's rate base and (ii) denying
9 any associated ratemaking recognition of the disputed refund payments made by AAWC to
10 Pulte.

11 V.

12 **CONCLUSION**

13 For the reasons discussed above in Sections II through IV of this Pre-Hearing
14 Memorandum, Anthem hereby requests that in its ultimate Opinion and Order in the instant
15 proceedings the Commission (i) permanently exclude from AAWC's rate base and (ii) deny
16 any associated ratemaking recognition of the disputed refund payments made by AAWC to
17 Pulte.

18 Dated this 16th day of April, 2010.

19 Respectfully submitted,

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24 and

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 Attorneys for Anthem Community Council

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SCOTTSDALE, ARIZONA 85261-4601

1 The original and fifteen (15) copies of the
2 foregoing Pre-Hearing Memorandum will
be filed the 16th day of April, 2010 with:

3 Docket Control
4 Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

5 A copy of the foregoing Pre-Hearing Memorandum
6 will be electronically transmitted/mailed/hand-delivered
the same date to:

7 Hearing Division
8 Arizona Corporation Commission
1200 West Washington
9 Phoenix, Arizona 85007

10 All parties of record

11
12 Wesley Peterson

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Appendix “A”

**(Intervenor Anthem Community
Council’s Pre-Hearing Memorandum
on Disputed Refund Payment Issue)**

**Docket Nos. W-01303A-09-0343
and SW-01303A-09-0343**

Citizens Utilities
Three High Ridge Park
Stamford, CT 06907
203-614-5600



November 24, 1998

Del Webb Corporation
Attention: Manager
14801 North Scottsdale Road, Suite 200
Scottsdale, Arizona 85254

Anthem Arizona, L.L.C.
Attention: Manager
14801 North Scottsdale Road, Suite 200
Scottsdale, Arizona 85254

Re: Agreement for Anthem Water/Wastewater Infrastructure dated as of September 29, 1997, among Del Webb Corporation, Anthem Arizona, L.L.C. (successor by merger to Anthem Arizona, Inc., which was formerly known as The Villages at Desert Hills, Inc.), Citizens Utilities Company, Citizens Water Services Company of Arizona, and Citizens Water Resources Company of Arizona, as amended (the "Agreement") (with capitalized terms in this letter having the meanings given to them in the Agreement)

Dear Ladies and Gentlemen:

Preliminary Statement. Webb and Citizens have completed negotiations to resolve the consequences of two circumstances:

- a. The Agreement was not approved by the Arizona Corporation Commission on or before August 15, 1998 (see §14.15); and
- b. The parties have not entered into an agreement on or before May 31, 1998, with the City of Phoenix that grants DriCo and TreatCo the right to provide DriCo Services and TreatCo Services in the Phoenix Area (see §6.3b).

As a result of these negotiations, Webb and Citizens have entered into this Letter Agreement and agree as follows:

1. Webb will make the annual payments to Citizens shown in Column 1 of the attached Exhibit A, beginning on July 1, 2004. The total payments by Webb to Citizens will not exceed \$9,150,000, if made on time each year. Payments that are more than 30 days past due will accrue interest from the due date at the rate set forth in Section 14.21 of the Agreement.
2. If by March 31, 1999, the City of Phoenix grants DriCo and TreatCo the right to provide DriCo Services and TreatCo Services in the Phoenix Area, Webb will instead make the annual payments to Citizens shown in Column 2 of the attached Exhibit A, beginning on July

CU/Webb.doc

1, 2004. The total payments by Webb to Citizens will not exceed \$12,600,000, if made on time each year. Payments that are more than 30 days past due will accrue interest from the due date at the rate set forth in Section 14.21 of the Agreement.

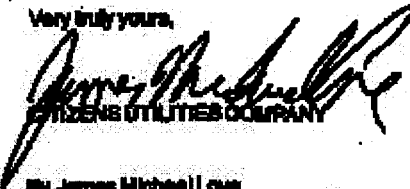
3. Webb's obligation to make the payments described in paragraphs [1] and [2] is suspended for such time as it is determined, under the dispute resolution provisions of Agreement Article XII that one of the Citizens Parties is in material default under the Agreement.
4. The parties recognize and acknowledge that condemnation of all or substantially all of the Facilities would cause the Webb Parties to incur additional costs for which they would not be compensated under Agreement Article X. As a consequence, in such event, all remaining payments owed by Webb under this Letter Agreement will be eliminated. The parties also recognize and acknowledge that elimination of these payments would deprive the Citizens Parties of a material benefit expected from providing service to Anthem. Accordingly, any condemnation award should compensate Citizens for the payment elimination. A portion of such award, equal to the present value (using a 12% discount rate) of the payment elimination, will be allocated to Citizens after sufficient funds have been allocated under ¶ 10.1(b) of the Agreement, but before any remaining funds are allocated under ¶ 10.1(c) of the Agreement.
5. Within 45 days after execution of the First Amendment, Citizens will re-file for approval by the Arizona Corporation Commission of the Agreement, as amended by the First Amendment. Among other things, the First Amendment would fix, until Buildout, the Capacity Reservation Charge ("CRC") at \$1,530 per ERU (that is, \$765 per ERU for water service and \$765 per ERU for wastewater service) as defined in Section 2.2 of the Agreement. If the Commission does not approve the re-filed Agreement, including a fixed CRC of \$1530 until Buildout, the following adjustment will be made:
 - a. An adjustment (the "offset calculation"), up or down, will be made to the amount of the annual payment under either paragraph [1] or [2] above. This adjustment will equal (a) the number of connections by a Builder made in the year before the payment due date, times (b) the difference in the CRC ordered by the Commission in a future rate proceeding and the \$1,530 established in the initial rate approval in Decision No. 00076.
 - For example, if the Commission orders a CRC in the amount of \$1,730 per connected ERU, to be effective on January 1, 2008, the payment due by Webb in 2009 would be reduced by an amount equal to (a) \$200 times (b) the number of connected ERUs in 2008. Assuming that 700 ERUs were connected in 2008, such Builders would make the CRC payments to TriadCo in the amount of \$1,730 per connection, and the \$880,000 payment due on July 1, 2009, that is otherwise required under paragraph [1] above would be reduced by \$140,000 (\$200 incremental increase in the CRC, times 700 connections).
 - b. The offset calculation would apply only to Builders that are wholly-owned Webb subsidiaries and not to any joint ventures or other Builders where Webb is not the sole owner of the Builder.

8. The parties are currently in the process of negotiating an agreement with the City of Phoenix ("City") that would resolve issues resulting from the City's failure to grant DktCo and TwpCo the right to provide DktCo Services and TwpCo Services in the Phoenix Area. The parties will use their best efforts to support and promptly consummate the following transactions as part of such agreement ("Phoenix Agreement"):
- a. The City would provide water and wastewater service in the Phoenix Area.
 - b. Webb would construct or cause to be constructed, according to City standards, all facilities required to interconnect Anthem (including the Phoenix Area) with the City and to provide back-up water supply and the peaking water supply for Citizens' service to Anthem ("Interconnection Facilities").
 - c. Until such time as the Interconnection Facilities are constructed, Citizens would provide, under the Phoenix Agreement or a concurrent agreement, wholesale water and wastewater service to the City for its customers in the Phoenix Area.
 - d. Webb would construct, or cause to be constructed, the distribution facilities for City service in the Phoenix Area ("Phoenix-Area Facilities"). Webb would incur incremental costs associated with constructing the Phoenix-Area Facilities to City standards, rather than County standards, ("Incremental Costs").
 - e. The Interconnection Facilities and the Phoenix-Area Facilities would be transferred to the City.
 - f. The City would provide long-term and uninterrupted back-up and peaking services capacity for Citizens' service to Anthem. For the peaking services, the City would charge Citizens a capacity charge that is expected to be less than the total of
 - i. the capacity charge(s) that the City would otherwise charge Citizens for the necessary transportation and treatment capacity; and
 - ii. the carrying costs of the facilities that would be avoided by entering into an agreement with the City.

The City would also charge Citizens a volumetric charge for the operating and maintenance costs associated with water actually treated and provided to Citizens. The quality of such water should be equivalent to that provided by the City to other City residents.

- g. The City would fully compensate Webb for the construction costs of the interconnection facilities, the incremental costs and Webb's over-siding costs for facilities already constructed.

Very truly yours,

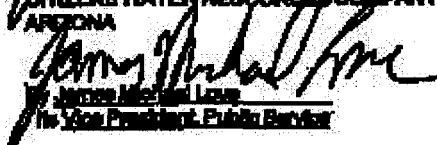

CITIZENS UTILITIES COMPANY

By James Michael Love
In Vice President, Public Service


CITIZENS WATER SERVICES COMPANY OF ARIZONA


By James Michael Love
In Vice President, Public Service


CITIZENS WATER RESOURCES COMPANY OF ARIZONA


By James Michael Love
In Vice President, Public Service

Agreed as of November 30, 1998:

DEL WEBB CORPORATION

By 
In Vice President

ANTHEM ARIZONA, L.L.C.


By 
In V.P. of Management

EXHIBIT A

LINE #	YEAR	PAYMENTS (Due On July 1, Each Year)	
		COLUMN 1	COLUMN 2
		(No Phoenix-Area Service)	(Phoenix-Area Service)
1	2004	\$ 1,483,000	\$ 1,912,000
2	2005	1,320,000	1,748,000
3	2006	1,210,000	1,638,000
4	2007	1,100,000	1,528,000
5	2008	990,000	1,418,000
6	2009	880,000	1,308,000
7	2010	715,000	1,144,000
8	2011	600,000	1,028,000
9	2012	484,000	913,000
10	2013	368,000	797,000
11	2014	-0-	237,000
12	2015	-0-	122,000
13	2016	-0-	9,000
14	TOTAL	\$ 9,160,000	\$ 13,804,000

Appendix “B”

**(Intervenor Anthem Community
Council’s Pre-Hearing Memorandum
on Disputed Refund Payment Issue)**

**Docket Nos. W-01303A-09-0343
and SW-01303A-09-0343**

"Parties"				
"Webb Parties"		"Citizens Parties"		
Del Webb Corporation ("Webb")	The Villages at Desert Hills, Inc. ("Developer")	Citizens Utilities Company ("Citizens")	Citizens Water Services Company of Arizona ("DistCo")	Citizens Water Resources Company of Arizona ("TreatCo")

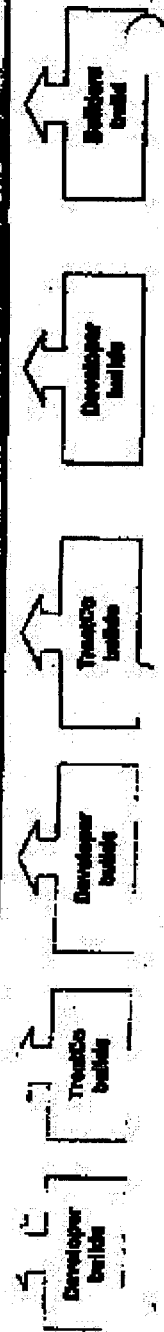
Appendix “C”

**(Intervenor Anthem Community
Council’s Pre-Hearing Memorandum
on Disputed Refund Payment Issue)**

**Docket Nos. W-01303A-09-0343
and SW-01303A-09-0343**

water/wastewater infrastructure

water/wastewater infrastructure					"On-Site Facilities" (within Project)
"Facilities"				"Backbone Facilities" (within Project)	
"Production/Treatment Facilities" (within Project)		"Subsequent Production/Treatment Facilities"			
"On-Site Facilities" (delivery of raw water from Windfall Canal to Project)	"Subsequent On-Site Facilities"	"Phase 1 Production/Treatment Facilities"	"Subsequent Production/Treatment Facilities"		
<ul style="list-style-type: none">Windfall Canal turn-out structureInitial phase of raw water pumping stationProject PipelinesAll other lines needed to deliver raw water to Project for initial water/wastewater service	<ul style="list-style-type: none">Subsequent phase of raw water pumping stationRemaining lines related to delivery of raw water to Project for additional water/wastewater service	<ul style="list-style-type: none">Initial phase of raw water improving reservoirInitial phase of water treatment plantInitial phase of wastewater treatment plantInitial phase of effluent storage systemInitial phase of water storage & transfer facilitiesInitial phase of exchange facilityInitial recovery & potable water unitsRelated lines	<ul style="list-style-type: none">Remaining phase of raw water improving reservoirRemaining phase of water treatment plantRemaining phase of wastewater treatment plantRemaining phase of effluent storage systemRemaining phase of water storage & transfer facilitiesRemaining phase of exchange facilityRemaining recovery & potable water unitsRemaining related lines		
<ul style="list-style-type: none">Transportation of Potable Water, Non-Potable Water or industrial wastewater<ul style="list-style-type: none">Between Discharge/Industrialization system & Production/Treatment Facilities of Treated WatersBetween Treatment Facilities & Non-Potable Water systems					
<ul style="list-style-type: none">Potable Water distribution systemWastewater collection system					



Appendix “D”

**(Intervenor Anthem Community
Council’s Pre-Hearing Memorandum
on Disputed Refund Payment Issue)**

**Docket Nos. W-01303A-09-0343
and SW-01303A-09-0343**

"Advances"									
"Developer's Advances"					"Citizens' Advances" (not to exceed \$24 million)				
(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)
At-Risk Water Lease Costs	Construction Costs related to Phase I & II facilities paid to contractors	Realty conveyed to TrustCo per \$5.1	Utility easements & rights-of-way conveyed to TrustCo per \$14.2	Reimbursement to TrustCo of Construction Costs for Subsequent Facilities under \$4.13	(Contingent) Payment to TrustCo if additional services increase its avg. rate base investment per employee under \$14.20(a)	(Contingent) Crack-up payment to TrustCo under \$1.5(c)	Reimbursement to Developer of Issues (i)-(iv)	(A)	(B) Construction Costs paid to contractors for Subsequent Facilities

Involved to TrustCo by Developer under §4.12(a)

Involved to Developer by TrustCo under §4.12(b)

Appendix “E”

**(Intervenor Anthem Community
Council’s Pre-Hearing Memorandum
on Disputed Refund Payment Issue)**

**Docket Nos. W-01303A-09-0343
and SW-01303A-09-0343**

EXHIBIT B

REFUNDS OF ADVANCES

1. TreatCo will pay to Citizens and Developer refunds of Citizens' Advances and Developer's Advances (collectively "Refunds") as follows:

a. Refunds in the amount of \$5,000 per ERU first taking service during a calendar year will be made on July 1 of the following year, the seventh month following the end of the calendar year of the ERU connection. For example, Refunds for ERU connections in 1999 will be due on July 1, 2000. Of this total refund amount, and subject to Sections 3.3(e), (f) and (g), 25% (\$1,250 per ERU) will be payable to Citizens and 75% (\$3,750 per ERU) will be payable to Developer.

b. Once at least 3,500 ERU have been connected, Refunds will retroactively increase by \$800 per ERU, and subsequent Refunds will be in the amount of \$5,800 per ERU until 7,000 ERU have been connected. The payment made on the July 1 following the year in which the 3,500th ERU is connected will account for all of the ERUs previously connected to the DistCo system. Subsequent Refunds will be only for the incremental ERUs (i.e., those in excess of the initial 3,500) in each of the preceding calendar years. Of these amounts, and subject to Sections 3.3(e), (f) and

(g), 25% (\$1,450 per ERU) will be payable to Citizens and 75% (\$4,350 per ERU) will be payable to Developer.

c. Once at least 7,000 ERU have been connected, Refunds will retroactively increase by \$300 per ERU, and subsequent Refunds will be in the amount of \$6,100 per ERU. The payment made on the July 1 following the year in which the 7,000th ERU is connected will account for all of the ERUs previously connected to the DistCo system. Subsequent Refunds will be only for the incremental ERUs (i.e., those in excess of the initial 7,000) in each of the preceding calendar years. Of these amounts, and subject to Sections 3.3(e), (f) and (g), 25% (\$1,525 per ERU) will be payable to Citizens and 75% (\$4,575 per ERU) will be payable to Developer.

d. Once a total of 10,000 ERU have been connected within the Project, true-up payments will be made (i) to Developer for unrefunded Developer's Advances and (ii) to Citizens for unrefunded Citizens' Advances. For additional ERUs in excess of the first 10,000, Refunds will continue to be made after the true-up payment at the annual rates set forth in paragraph (c) above, subject to the limitations set forth in paragraph 2 below.

e. At Build-Out, a final true-up payment will be made (i) to Developer for the remaining unrefunded Developer's

Advances and (ii) to Citizens for the remaining unrefunded Citizens' Advances.

f. Any Refunds not made by July 1 of any year will bear interest from July 1 of that year at the Prime Rate plus 2.00% per annum until paid.

2. The total amount of all Refunds to be made to Developer will not exceed the total amount of Developer's Advances (plus any applicable interest under paragraph 1(f) above, which interest is not to be construed as part of the Refund), less payments made to Developer by TreatCo under Section 8.12(b). The total amount of all Refunds to be made to Citizens will not exceed the total amount of Citizens' Advances (plus any applicable interest under paragraph 1(f) above, which interest is not to be construed as part of the Refund), less payments made to TreatCo by Developer under Section 8.13(b). Dividends declared or paid by TreatCo to a shareholder of TreatCo do not constitute Refunds.

Exhibit

B

CITIZENS UTILITIES COMPANY
VILLAGES AT DESERT HILLS -- PROFORMA PROJECTIONS

SUMMARY
Page 1 of 5

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VOH MODEL -- FINAL

CONTROL SHEET FOR "MODEL CHANGES"
(\$ in Thousands)

LINE #	DESCRIPTION	RESULTS OF OPERATIONS		INPUT DATA		INPUT DATA		INPUT DATA		PERCENTAGE RATE INCREASE COMPOUNDED ANNUAL FROM 1999
		DISTCO ROR	TREATCO ROR	CHARGES FOR TREATMENT	CAPACITY RESERVATION CHARGE / CUSTOMER / SERVICE	REFUND FROM TREATCO	MONTHLY RATE /BILL FOR 5/8" METER CUSTOMER	NUMBER OF 5/8" METER CUSTOMERS PER YEAR		
[1]				[3]	[4]	[5]	[6]	[7]	[8]	[9]
[2]										
		Pg 2 & 3		Pg 4 & 5						
AT BEGINNING OF PROJECT										

1 TOTAL MONTHLY CHARGE -- RESULT OF INITIAL RATES

2 NUMBER OF CUSTOMERS ADDED PER YEAR

3 MONTHLY PER "M" GALLON CONSUMPTION CHARGE -- WATER

4 MONTHLY PER "M" GALLON TREATMENT CHARGE -- WASTEWATER

WITH EFFECTIVE DATES OR PERIODS

YEAR

6	1,998	-132.28%	17.18%	\$ 0.335	\$ 0.500	\$ 5.000	\$ 70.00	700	
7	2,000	-35.62%	31.21%	0.1250			\$ 2.00		
8	2,001	21.42%	15.86%	0.1250			\$ 2.00		
9	2,002	28.30%	11.92%						
10	2,003	19.19%	10.41%						
11	2,004	15.89%	13.33%						
12	2,005	13.47%	13.91%						
13	2,006	12.76%	12.53%						
14	2,007	9.94%	12.08%						
15	2,008	8.47%	11.23%						
16	2,009	8.92%	10.11%						
17	2,010	19.20%	12.89%						
18	2,011	11.92%	13.19%						
19	2,012	11.24%	13.01%						
20	2,013	9.88%	13.13%						
21	2,014	14.55%	14.55%						
22	2,015	10.16%	10.16%						
23	2,016	8.46%	12.53%						
24	2,017	10.18%	14.28%						
25	2,018	10.68%	11.55%						
26	2,019	10.04%	11.62%						
AVERAGE		9.96%	12.05%						
		8.27%	13.11%						
		9.35%	12.81%						

VOHMODEL.MS
CONTROL (BIDE1.B0260)



Y2K MODEL - FINAL

LINE #	DESCRIPTION	REFERENCE	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	AVERAGE # OF CUSTOMERS	SCH. D	202	811	1,623	2,455	3,247	4,028	4,871	5,683	6,495	7,307
2	% RATE INCREASE OVER 1999 RATES	Data Sheet-2						11.50%	11.50%	11.50%	11.50%	11.50%
3	WATER SERVICES	SCH. F	\$51	\$408	\$816	\$1,228	\$1,804	\$2,405	\$3,006	\$3,607	\$4,208	\$4,809
4	WASTEWATER SERVICES	SCH. G	38	310	620	932	1,242	1,656	2,141	2,626	3,111	3,596
5	RATE INCREASE AT % SHOWN							521	826	1,131	1,436	1,741
6	OTHER											
7	TOTAL REVENUES		90	717	1,436	2,158	2,876	3,594	4,312	5,030	5,748	6,466
8	OPERATING EXPENSES											
9	PURCHASED WATER	SCH. N	34	271	544	816	1,088	1,360	1,632	1,904	2,176	2,448
10	WASTEWATER TREATMENT	SCH. N	34	271	544	816	1,088	1,360	1,632	1,904	2,176	2,448
11	OTHER		0	0	0	0	0	0	0	0	0	0
12	OPERATING EXPENSES	SCH. H	102	985	1,972	2,958	3,944	4,930	5,916	6,902	7,888	8,874
13	TOTAL OPERATING EXPENSES		102	985	1,972	2,958	3,944	4,930	5,916	6,902	7,888	8,874
14	DEPRECIATION (Avg. L 22 * Rate)	3.00%	18	84	168	252	336	420	504	588	672	756
15	AMORTIZATION OF CIAC (Avg. L 32 * Rate)	3.00%	18	84	168	252	336	420	504	588	672	756
16	TOTAL EXPENSES BEFORE INCOME TAXES	3.00%	120	1,153	2,140	3,210	4,280	5,350	6,420	7,490	8,560	9,630
17	INTEREST EXPENSE (L 34 * Rate)	3.00%	0	1	3	5	7	9	11	13	15	17
18	TAXABLE INCOME		120	1,152	2,137	3,205	4,273	5,341	6,409	7,477	8,545	9,613
19	INCOME TAX EXPENSE (L 18 * Rate)	40.00%	45	465	864	1,281	1,698	2,115	2,532	2,949	3,366	3,783
20	TOTAL EXPENSE		165	1,618	3,001	4,491	5,971	7,456	8,941	10,421	11,906	13,393
21	NET OPERATING INCOME		55	534	1,135	1,717	2,305	2,894	3,477	4,065	4,653	5,241
22	RATE BASE											
23	PLANT IN SERVICE	SCH. B	\$1,258	\$2,354	\$3,724	\$5,118	\$6,512	\$7,906	\$9,300	\$10,694	\$12,088	\$13,482
24	C.W.I.P.		86	358	544	730	916	1,102	1,288	1,474	1,660	1,846
25	ACCUMULATED DEPRECIATION (L 13 * Prior Year)		19	77	111	145	179	213	247	281	315	349
26	NET PLANT		1,320	2,618	4,279	6,003	7,735	9,469	11,201	12,933	14,665	16,397
27	CUSTOMER ADVANCES - 80%	SCH. M	12	1,323	2,007	2,703	3,414	4,125	4,836	5,547	6,258	6,969
28	REFUND OF C/A - SUBDIVISION - Years		0	45	153	302	451	600	749	898	1,047	1,196
29	N/A		0	0	0	0	0	0	0	0	0	0
30	DEFERRED INCOME TAXES	SCH. K	7	14	26	44	62	80	98	116	134	152
31	CIAC	SCH. L	10	100	200	300	400	500	600	700	800	900
32	AMORTIZATION OF CIAC (L 14 * Prior Year)		10	100	200	300	400	500	600	700	800	900
33	OTHER											
34	RATE BASE		1,320	2,618	4,279	6,003	7,735	9,469	11,201	12,933	14,665	16,397
35	EARNED RATE OF RETURN		-132.26%	-33.62%	21.42%	28.30%	18.10%	13.47%	12.76%	9.94%	8.47%	8.92%

CITIZENS UTILITIES COMPANY
VILLAGES AT DESERT HILLS - PROFORMA PROJECTIONS

FINAL SUMMARY - DISTCO OPERATIONS
(\$ in Thousands)

YDHL MODEL - FINAL

LINE #	DESCRIPTION	REFERENCE	(1) 2009	(2) 2010	(3) 2011	(4) 2012	(5) 2013	(6) 2014	(7) 2015	(8) 2016	(9) 2017	(10) 2018
1	AVERAGE # OF CUSTOMERS	SCH. D	8,115	8,931	9,743	10,555	11,363	12,169	12,558	12,558	12,558	12,558
2	% RATE INCREASE OVER 1998 RATES		37.40%	37.40%	37.40%	37.40%	37.40%	37.40%	37.40%	37.40%	37.40%	37.40%
3	WATER SERVICES	SCH. F	\$4,068	\$4,487	\$4,906	\$5,315	\$5,714	\$6,097	\$6,281	\$6,281	\$6,281	\$6,281
4	WASTEWATER SERVICES	SCH. G	3,107	3,418	3,729	4,040	4,342	4,634	4,774	4,774	4,774	4,774
5	RATE INCREASE AT % SHOWN		2,991	2,990	3,229	3,499	3,761	4,042	4,307	4,307	4,307	4,307
6	OTHER											
7	TOTAL REVENUES		9,660	10,876	11,864	12,854	13,817	14,763	15,441	15,441	15,441	15,441
8	OPERATING EXPENSES											
9	PURCHASED WATER	SCH. N	3,995	4,394	4,794	5,193	5,593	5,992	6,151	6,151	6,151	6,151
10	WASTEWATER TREATMENT	SCH. N	0	0	0	0	0	0	0	0	0	0
11	OTHER		0	0	0	0	0	0	0	0	0	0
12	TOTAL OPERATING EXPENSES		3,995	4,394	4,794	5,193	5,593	5,992	6,151	6,151	6,151	6,151
13	DEPRECIATION (Avg. L 22 * Rate)	3.00%	449	487	527	568	609	650	703	743	743	743
14	AMORTIZATION OF CAC (Avg. L 32 * Rate)	3.00%	-228	-232	-237	-242	-247	-252	-257	-262	-267	-267
15	TAXES OTHER THAN INCOME (L 22 * Rate)	1.00%	159	174	191	206	223	240	248	248	248	248
16	TOTAL EXPENSES-BEFORE INCOME TAXES		3,400	4,032	4,468	4,903	5,340	5,792	6,151	6,151	6,151	6,151
17	INTEREST EXPENSE (L 34 * Rate)	3.00%	81	89	98	107	116	125	134	143	143	143
18	TAXABLE INCOME		3,319	3,943	4,370	4,796	5,224	5,667	6,017	6,008	6,008	6,008
19	INCOME TAX EXPENSE (L 18 * Rate)	40.00%	133	158	175	192	211	233	248	278	275	248
20	TOTAL EXPENSE		3,452	4,190	4,643	5,095	5,551	5,925	6,400	6,429	6,426	6,400
21	NET OPERATING INCOME		617	753	727	701	673	642	617	579	579	579
22	PLANT IN SERVICE	SCH. B	\$15,758	\$17,308	\$19,073	\$20,789	\$22,536	\$24,310	\$24,763	\$24,763	\$24,763	\$24,763
23	C.Y.P.		403	412	421	430	439	445	451	457	463	469
24	ACCUMULATED DEPRECIATION (L 13 + Prior Year)		-3,466	-2,853	-2,240	-1,627	-1,014	-563	-197	-594	-783	-972
25	NET PLANT		12,695	14,867	16,833	19,162	21,522	23,747	24,266	24,169	24,080	23,791
26	CUSTOMER ADVANCES - 50%	SCH. M	-7,987	-8,803	-9,619	-10,435	-11,251	-12,067	-12,235	-12,235	-12,235	-12,235
27	REFUND OF C.A. SUBDIVISION - Years	12	4,054	4,944	5,834	6,724	7,614	8,504	9,394	10,284	11,174	12,064
28	N/A		0	0	0	0	0	0	0	0	0	0
29	N/A		0	0	0	0	0	0	0	0	0	0
30	DEFERRED INCOME TAXES	SCH. K	-331	-397	-470	-549	-628	-707	-786	-865	-944	-1,023
31	CAC	50%	-7,987	-8,803	-9,619	-10,435	-11,251	-12,067	-12,235	-12,235	-12,235	-12,235
32	AMORTIZATION OF CAC (L 14 + Prior Year)		1,370	1,332	1,294	1,256	1,218	1,180	1,142	1,104	1,066	1,028
33	OTHER											
34	RATE BASE		\$2,718	\$3,311	\$3,875	\$4,417	\$4,959	\$5,501	\$6,043	\$6,585	\$7,127	\$7,669
35	EARNED RATE OF RETURN		11.92%	11.24%	10.56%	9.88%	9.20%	8.52%	7.84%	7.16%	6.48%	5.80%

DEW-1.XLS
DISTCO_P3 (A/AS1-AZ120)

YDM MODEL - FINAL

CITIZENS UTILITIES COMPANY
VILLAGES AT DESERT HILLS - PROFORMA PROJECTIONSTREATCO OPERATIONS
PAGE 1 of 2
10/10/97SUMMARY
PAGE 4 of 5FINAL SUMMARY - TREATCO OPERATIONS
(\$ in Thousands)

LINE #	DESCRIPTION	REFERENCE	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1	NUMBER OF CUSTOMERS	SCH. D	408	1,218	2,092	2,842	3,854	4,359	5,278	6,080	6,932	7,714	8,502
2	AVERAGE # OF CUSTOMERS		202	211	1,523	2,435	3,242	4,058	4,871	5,683	6,495	7,307	8,119
3	% RATE INCREASE OVER BASE YEAR 2000 RATES												
4	WATER SERVICES	DISTCO	34	271	544	816	1,089	1,643	1,972	2,301	2,630	2,959	3,288
5	WASTEWATER SERVICES	DISTCO	34	271	544	816	1,089	1,643	1,972	2,301	2,630	2,959	3,288
6	GOLF COURSE IRRIGATION		72	753	296	299	302	305	308	311	314	317	320
7	CAPACITY RESERV. CHG.-WATER	Data Sheet	203	405	405	405	405	405	405	405	405	405	405
8	CAPACITY RESERV. CHG.-W/TW	Data Sheet	203	405	405	405	405	405	405	405	405	405	405
9	TOTAL REVENUES		546	1,648	2,186	2,743	3,231	3,680	4,121	4,562	4,993	5,424	5,855
10	OPERATING EXPENSES												
11	N/A												
12	OTHER	SCH. I	141	291	378	454	563	629	647	1,078	1,270	1,344	1,344
13	OPERATING EXPENSES		141	291	378	454	563	629	647	1,078	1,270	1,344	1,344
14	TOTAL OPERATING EXPENSES												
15	DEPRECIATION	SCH. J	12	85	142	251	398	513	659	870	1,124	1,325	1,325
16	TAXES OTHER THAN INCOME (L 23 * Rate)	1.00%	315	354	380	482	513	545	587	685	785	761	761
17	TOTAL EXPENSES-BEFORE INCOME TAXES		458	710	898	1,187	1,472	1,687	2,053	2,643	3,145	3,432	3,432
18	INTEREST EXPENSE (L 34 * Rate)	3.00%	9	66	180	284	357	535	640	743	854	816	816
19	TAXABLE INCOME		69	662	1,138	1,282	1,472	1,238	1,388	3,750	3,813	6,162	6,162
20	INCOME TAX EXPENSE (L 19 * Rate)	40.00%	27	265	455	517	589	1,295	1,355	1,500	1,526	2,465	2,465
21	TOTAL EXPENSE		485	1,000	1,353	1,704	2,061	2,982	3,408	4,143	4,671	5,897	5,897
22	NET OPERATING INCOME		561	648	833	1,039	1,170	1,247	1,273	1,293	1,322	1,527	1,527
23	PLANT IN SERVICE	SCH. C	\$31,400	\$35,419	\$37,862	\$48,216	\$51,262	\$54,573	\$58,720	\$60,459	\$75,491	\$76,298	\$76,298
24	C.W.I.P.		1,254	251	214	526	197	286	364	984	471	31	31
25	ACCUMULATED DEPRECIATION (L 13 + Prior Year)		12	77	219	470	856	1,358	2,028	2,898	4,022	5,347	5,347
26	NET PLANT		32,712	35,393	37,857	48,682	50,603	53,440	56,056	67,559	71,940	70,982	70,982
27	ADVANCED FUNDS	SCH. M	31,808	34,730	37,181	47,902	50,119	53,394	57,972	60,848	74,011	74,346	74,346
28	REPAYMENT-PART # 1	\$5,000		2,000	6,080	10,150	14,210	18,776	22,330	28,390	30,450	34,510	34,510
29	REPAYMENT-PART # 2	\$0,800						2,923	3,573	4,222	4,872	5,522	5,522
30	REPAYMENT-PART # 3	\$2,300											
31	REPAYMENT-PART - TRUE-UP												
32	DEFERRED INCOME TAXES												
33	WORKING CAPITAL & OTHER												
34	RATE BASE												
35	RATE OF RETURN		17.15%	31.21%	15.85%	11.82%	10.41%	13.91%	12.63%	12.08%	11.23%	15.11%	12.98%

YDMMODEL 96
TREATCO_F1(A121.A2180)

CITIZENS UTILITIES COMPANY
VILLAGES AT DESERT HILLS - PRO-FORMA PROJECTIONS
FINAL SUMMARY - TREATCO OPERATIONS
(\$ in Thousands)

LINE #	DESCRIPTION	REFERENCE	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	NUMBER OF CUSTOMER MOVES		8,526	8,338	10,150	10,982	11,768	12,558	12,558	12,558	12,558	12,558
2	AVERAGE # OF CUSTOMERS	SCH. D	8,118	8,931	9,743	10,555	11,363	12,169	12,558	12,558	12,558	12,558
3	% RATE INCREASE OVER BASE YEAR 2000 RATES											
4	WATER SERVICES	DISTCO	83,995	\$4,394	\$4,794	\$5,193	\$5,593	\$7,912	\$8,151	\$8,151	\$8,151	\$8,151
5	WASTEWATER SERVICES	DISTCO	3,965	4,394	4,794	5,193	5,593	7,912	8,151	8,151	8,151	8,151
6	GOLF COURSE IRRIGATION		673	677	679	686	694	682	697	697	697	697
7	CAPACITY RESERV. CHG.-WATER	Debt Sheet	1,961	1,961	1,961	1,961	1,961	1,961	1,961	1,961	1,961	1,961
8	CAPACITY RESERV. CHG.-W/W	Debt Sheet	1,961	1,961	1,961	1,961	1,961	1,961	1,961	1,961	1,961	1,961
9	TOTAL REVENUES		12,558	13,307	14,108	15,165	15,917	20,503	17,130	17,108	17,034	17,001
OPERATING EXPENSES												
10	N/A											
11	N/A											
12	OTHER	SCH. I	1,422	1,601	1,685	1,973	2,084	2,187	2,241	2,310	2,491	2,581
13	OPERATING EXPENSES		1,422	1,601	1,685	1,973	2,084	2,187	2,241	2,310	2,491	2,581
14	TOTAL OPERATING EXPENSES											
15	DEPRECIATION	SCH. J	3,467	3,908	4,321	4,164	4,164	4,502	3,537	3,579	3,563	3,209
16	TAXES OTHER THAN INCOME (1.25 * Rate)	1.00%	828	852	878	849	873	979	1,006	1,008	1,008	1,008
17	TOTAL EXPENSES BEFORE INCOME TAXES		5,717	5,361	5,884	6,668	7,231	7,678	6,783	6,587	7,082	6,776
18	INTEREST EXPENSE (1.34 * Rate)	3.00%	1,091	1,071	1,102	1,145	1,245	1,285	1,801	1,784	1,651	1,545
19	TAXABLE INCOME		5,958	5,955	6,202	7,382	5,941	11,080	8,146	8,441	8,301	8,976
20	INCOME TAX EXPENSE (1.19 * Rate)	40.00%	2,334	2,382	2,481	2,941	2,776	4,424	3,418	3,378	3,320	3,471
21	TOTAL EXPENSE		8,051	8,743	9,365	9,609	10,007	12,102	10,201	10,276	10,402	10,249
22	NET OPERATING INCOME		\$4,533	\$4,544	\$4,823	\$5,556	\$5,910	\$8,401	\$6,929	\$6,832	\$6,632	\$6,752
RATE BASE												
23	PLANT IN SERVICE		\$82,823	\$85,174	\$87,770	\$84,904	\$87,330	\$87,842	\$100,925	\$100,773	\$100,774	\$100,774
24	C.W.I.P.		805	183	227	644	106	42	237	1	0	0
25	ACCUMULATED DEPRECIATION (1.13 * Prior Year)		-9,814	-12,722	-17,043	-20,789	-24,953	-28,455	-32,992	-36,571	-40,154	-43,353
26	NET PLANT		74,814	72,635	70,954	64,759	62,543	64,579	67,770	64,203	60,620	57,411
27	ADVANCED FUNDS		-81,284	-83,123	-85,716	-83,078	-84,950	-85,417	-90,134	-86,134	-86,134	-86,134
28	REPAYMENT-PART # 1	\$5,000	38,570	42,630	46,890	52,750	54,810	58,840	62,790	62,790	62,790	62,790
29	REPAYMENT-PART # 2	\$0,000	8,171	8,621	7,470	8,120	8,770	9,414	10,046	10,046	10,046	10,046
30	REPAYMENT-PART # 3	\$0,300	2,314	2,558	2,801	3,045	3,289	3,530	3,767	3,767	3,767	3,767
31	REPAYMENT-PART - TRUE-UP											
32	DEFERRED INCOME TAXES	SCH. K	-8,018	-5,789	-5,454	-5,417	-5,289	-5,050	-5,222	-5,400	-5,578	-5,906
33	WORKING CAPITAL & OTHER											
34	RATE BASE		\$24,305	\$23,102	\$26,146	\$28,178	\$28,172	\$30,847	\$28,018	\$28,800	\$29,042	\$31,505
35	RATE OF RETURN		13.18%	13.01%	13.13%	14.55%	10.16%	14.29%	11.55%	11.82%	12.02%	13.11%
												12.61%

Exhibit C

Schedule Anthem - Legal 1

**Arizona American Water Company
Docket Nos. W-01303A-09-0343
and SW-01303A-09-0343
June 18, 2010**

ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & WASTEWATER DISTRICTS

ANTHEM/AGUA FRIA WASTEWATER DISTRICT
Comparison of Staff, RUCO and Company Revenue Requirements With Proposed Anthem Legal Amount

DESCRIPTION	RECOMMENDED PER FILINGS	NW PLANT ADJUST. (1)	PULTE LEGAL ADJUST. (2)	ADJUSTED LEGAL AMOUNT
STAFF: (3)				
Rate Base	\$44,359,326	-\$2,482,145	-\$6,256,813	\$35,620,368
Adjusted Operating Income	169,900	127,316	40,834	338,050
Required Rate of Return	7.20%			7.20%
Required Operating Income	3,193,871			2,564,666
Operating Income Deficiency	3,023,971			2,226,616
Gross Revenue Conversion Factor	1.6561			1.6561
Required Revenue Increase	5,007,999			3,687,500
Adjusted Test Year Revenues	8,637,123			8,637,123
Percentage Increase in Revenues	57.98%			42.69%
RUCO: (4)				
Rate Base	\$47,558,242	-\$3,345,499	-\$6,256,813	\$37,955,930
Adjusted Operating Income	23,202	253,935	40,834	317,971
Required Rate of Return	6.77%			6.77%
Required Operating Income	3,219,693			2,569,616
Operating Income Deficiency	3,196,491			2,251,645
Gross Revenue Conversion Factor	1.6561			1.6561
Required Revenue Increase	5,293,709			3,728,950
Adjusted Test Year Revenues	8,634,567			8,634,567
Percentage Increase in Revenues	61.31%			43.19%
COMPANY: (5)				
Rate Base	\$45,416,602	-\$2,482,145	-\$6,256,813	\$36,677,644
Adjusted Operating Income	88,073	127,316	40,834	256,223
Required Rate of Return	7.20%			7.20%
Required Operating Income	3,269,995			2,640,790
Operating Income Deficiency	3,181,922			2,384,567
Gross Revenue Conversion Factor	1.6683			1.6683
Required Revenue Increase	5,308,401			3,978,174
Adjusted Test Year Revenues	8,634,017			8,634,017
Percentage Increase in Revenues	61.48%			46.08%

NOTES:

- (1) Per Surrebuttal Exhibit DLN-3
- (2) Pulte Refunds of \$920,490 for 2007 and \$5,336,323 for 2008
- (3) Per Staff Schedule GTM-1
- (4) Per Attachment RCS-3 to Direct Testimony of RUCO Witness Ralph Smith - Anthem/Agua Fria Wastewater
- (5) Per Company Rebuttal Schedule A-1 - Anthem/Agua Fria Wastewater

Schedule Anthem - Legal 2

**Arizona American Water Company
Docket Nos. W-01303A-09-0343
and SW-01303A-09-0343
June 18, 2010**

ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & WASTEWATER DISTRICTS

ANTHEM WATER DISTRICT
Comparison of Staff, RUCO and Company Revenue Requirements
With Proposed Anthem Legal Amounts

DESCRIPTION	RECOMMENDED PER FILINGS	PULTE LEGAL ADJUST. (1)	ADJUSTED LEGAL AMOUNT
STAFF: (2)			
Rate Base	\$57,368,047	-\$17,037,609	\$40,330,438
Adjusted Operating Income	548,175	98,580	646,755
Required Rate of Return	7.20%		7.20%
Required Operating Income	4,130,499		2,903,792
Operating Income Deficiency	3,582,324		2,257,037
Gross Revenue Conversion Factor	1.6578		1.6578
Required Revenue Increase	5,938,777		3,741,715
Adjusted Test Year Revenues	7,483,274		7,483,274
Percentage Increase in Revenues	79.36%		50.00%
RUCO: (3)			
Rate Base	\$57,291,754	-\$17,037,609	\$40,254,145
Adjusted Operating Income	667,437	98,580	766,017
Required Rate of Return	6.77%		6.77%
Required Operating Income	3,878,652		2,725,206
Operating Income Deficiency	3,211,215		1,959,189
Gross Revenue Conversion Factor	1.6578		1.6578
Required Revenue Increase	5,323,552		3,247,943
Adjusted Test Year Revenues	7,473,818		7,473,818
Percentage Increase in Revenues	71.23%		43.46%
COMPANY: (4)			
Rate Base	\$57,422,164	-\$17,037,609	\$40,384,555
Adjusted Operating Income	528,986	98,580	627,566
Required Rate of Return	7.20%		7.20%
Required Operating Income	4,134,396		2,907,688
Operating Income Deficiency	3,605,410		2,280,122
Gross Revenue Conversion Factor	1.6538		1.6538
Required Revenue Increase	5,962,627		3,770,866
Adjusted Test Year Revenues	7,482,226		7,482,226
Percentage Increase in Revenues	79.69%		50.40%

NOTES:

- (1) Pulte Refunds of \$2,147,810 for 2007 and \$14,889,799 for 2008
- (2) Per Staff Schedule GWB-1
- (3) Per Attachment RCS-2 to Direct Testimony of RUCO Witness Ralph Smith - Anthem Water
- (4) Per Company Rebuttal Schedule A-1 - Anthem Water

Schedule Anthem - 3

**Arizona American Water Company
Docket Nos. W-01303A-09-0343
and SW-01303A-09-0343
June 18, 2010**

ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & WASTEWATER DISTRICTS

Rate of Return and Utility Plant Adjustments to Partially Mitigate Rate Shock

DESCRIPTION	AS FILED (1)	ADJUSTMENTS	ADJUSTED AMOUNT
WATER:			
Rate Base (2)	\$57,430,024	-\$12,666,752	\$44,763,272
Adjusted Operating Income (3)	514,449	257,236	771,685
Required Rate of Return (4)	8.53%	-1.20%	7.33%
Operating Income Reqmt.	4,898,781		3,281,148
Operating Income Def.	4,384,332		2,509,463
Gross Rev. Conv. Factor	1.6578		1.6578
Increase in Gross Revenues	7,268,346		4,160,187
Adjusted Test Year Revenues	7,483,274		7,483,274
Revenue Increase Percentage	97.13%		55.59%
WASTEWATER:			
Rate Base (5)	\$47,735,732	-\$4,408,870	\$43,326,862
Adjusted Operating Income (6)	-191,785	96,142	-95,643
Required Rate of Return (4)	8.53%	-1.20%	7.33%
Operating Income Reqmt.	4,071,858		3,175,859
Operating Income Def.	4,263,643		3,271,502
Gross Rev. Conv. Factor	1.6561		1.6561
Increase in Gross Revenues	7,061,019		5,417,934
Adjusted Test Year Revenues	8,637,123		8,637,123
Revenue Increase Percentage	81.75%		62.73%

NOTES:

- (1) Per Company Original Wastewater Filing and Revised Water Filing
- (2) Pulte Refund - Gross Utility Plant \$14,889,799 Less Accumulated Depreciation (14.93%) of \$2,223,047
- (3) 2008 Depreciation (2.80%) of \$416,914 less Income Taxes (38.3%) of \$159,678
- (4) Adjustment to Reduce Rate of Return to 7.33% per ACC Rate of Return Finding in Decision No. 71410
- (5) Pulte Refund - Gross Utility Plant \$5,336,323 Less Accumulated Depreciation (17.38%) of \$927,453
- (6) 2008 Depreciation (2.92%) of \$155,821 less Income Taxes (38.3%) of \$59,679

Schedule Anthem - 4

**Arizona American Water Company
Docket Nos. W-01303A-09-0343
and SW-01303A-09-0343
June 18, 2010**

ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & WASTEWATER DISTRICTS

NORTHWEST WW PLANT ALLOCATION
Anthem/Aqua Fria & Sun City West Customer Growth Rates

DESCRIPTION	END OF YEAR	NEAF CUST. (1)	CUST. GRTH.	% GRTH.	SC WEST CUST. (1)	CUST. GRTH.	% GRTH.
HISTORICAL:	2004 (2)	602			14,920		
	2005	1,079	477	79.24%	14,931	11	0.07%
	2006	2,581	1,502	139.20%	14,978	47	0.31%
	2007	2,875	294	11.39%	14,985	7	0.05%
	2008	2,816	-59	-2.05%	14,968	-17	-0.11%
	2009	2,914	98	3.48%	14,962	-6	-0.04%
STAFF PROJECTIONS:	2009	3,520	704	25.00%	14,982	14	0.09%
	2010	4,224	704	20.00%	14,996	14	0.09%
	2011	4,928	704	16.67%	15,010	14	0.09%
	2012	5,632	704	14.29%	15,024	14	0.09%
	2013	6,336	704	12.50%	15,038	14	0.09%
REVISED PROJECTIONS: (3)	2009	2,914	98	3.48%	14,962	-6	-0.04%
	2010	3,025	111	3.81%	14,962	0	0.00%
	2011	3,136	111	3.67%	14,962	0	0.00%
	2012	3,247	111	3.54%	14,962	0	0.00%
	2013	3,358	111	3.42%	14,962	0	0.00%

NOTES:

- (1) Historical Year End Northeast Agua Fria ("NEAF") Customers for Years 2005 Through 2009 Per Company Responses to Anthem Data Requests 4.8 and 4.9.
- (2) 2004 Year End Customers Per Staff Engineering Report in Docket WS-01303A-06-0491; NEAF Customer Count is January 2005.
- (3) Projected 2010 Through 2013 Customer Growth for NEAF Based on Average Growth for Three Years of 2007 Through 2009; Sun City West Projected Growth Rate is Flat.

Schedule Anthem - 5

**Arizona American Water Company
Docket Nos. W-01303A-09-0343
and SW-01303A-09-0343
June 18, 2010**

ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & WASTEWATER DISTRICTS

NORTHWEST WW PLANT ALLOCATION
Calculation of Allocation Percentages

DESCRIPTION	AMOUNT	PERCENT
<u>STAFF ALLOCATION PERCENTAGES (1)</u>		
NORTHEAST AGUA FRIA ("NEAF"):		
Number of Customers at End of Test Year (2008)	2,816	
Estimated Annual Growth (2005-2008) (2,816/4)	704	
5 Year Projected Growth (704*5 yrs)	3,520	
Projected Number of Customers in 2013 (2,816+3,520)	6,336	
Maximum Peak Daily Flow During Test Year (gpd/c)	168	
Projected Maximum Flow - 2013	1,064,448	26.94%
SUN CITY WEST:		
Number of Customers at End of Test Year (2008)	14,968	
Estimated Annual Growth (2005-2008)	14	
5 Year Projected Growth (14*5 yrs)	70	
Projected Number of Customers in 2013 (2,816+3,520)	15,038	
Maximum Peak Daily Flow During Test Year (gpd/c)	192	
Projected Maximum Flow - 2013	2,887,296	73.06%
Combined Maximum Flow - Northwest Plant	3,951,744	100.00%
<u>RECOMMENDED ALLOCATION PERCENTAGES (2)</u>		
NORTHEAST AGUA FRIA ("NEAF"):		
Number of Customers at End of Test Year (2009)	2,914	
Estimated Annual Growth (2007-2009) (333/3)	111	
4 Year Projected Growth (111*4 yrs)	444	
Projected Number of Customers in 2013 (2,914+444)	3,358	
Maximum Peak Daily Flow During Test Year (gpd/c)	168	
Projected Maximum Flow - 2013	564,144	16.41%
SUN CITY WEST:		
Number of Customers at End of Test Year (2008)	14,962	
Estimated Annual Growth (2007-2009) (-16/3)	-5	
4 Year Projected Growth (0*4 yrs)	0	
Projected Number of Customers in 2013 (14,962+0)	14,962	
Maximum Peak Daily Flow During Test Year (gpd/c)	192	
Projected Maximum Flow - 2013	2,872,704	83.59%
Combined Maximum Flow - Northwest Plant	3,436,848	100.00%

NOTES:

- (1) Per Schedule DMH-1 Appended to Staff Response to Anthem Data Request 1.1
(2) Based on Projections Shown on Surrebuttal Exhibit DLN-1

Schedule Anthem - 6

**Arizona American Water Company
Docket Nos. W-01303A-09-0343
and SW-01303A-09-0343
June 18, 2010**

ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & WASTEWATER DISTRICTS

NORTHWEST WW PLANT ALLOCATION
Proposed Rate Base and Operating Income Adjustments to Company, Staff & RUCO

PLANT ADJUSTMENT		FILED	STAFF		ADJUST.	ADJUST.	
DESCRIPTION	UTILITY	32%	28%	16.5%	TO STAFF	TO	DEPR.
	PLT. CST. (1)	ALLOC.	ALLOC (1)	ALLOC.	& CO. (2)	RUCO	ADJ. (3)
Northwest WW Plant	\$25,995,575	\$8,318,584	\$7,278,761	\$4,289,270	-\$2,989,491	-\$4,029,314	
Accumulated Depreciation (4)	-4,411,709	-1,411,747	-1,235,279	-727,932	507,347	683,815	
Net Plant	\$21,583,866	\$6,906,837	\$6,043,482	\$3,561,338	-\$2,482,145	-\$3,345,499	
Depreciation Adj. - Staff & Co.							-\$134,826
Depreciation Adj. - RUCO							-\$181,722

NOTES:

- (1) Per Staff Schedule GTM-5
- (2) Adjusted to Company Rebuttal Rate Base
- (3) Staff Composite Depreciation Rate of 4.51% for the Northwest Plant
- (4) Staff Adjusted Accumulated Depreciation for the Northwest Plant of 16.971%

OPERATING INC. ADJ.					ADJUST.	ADJUST.
DESCRIPTION	TOTAL PLT.	32%	28%	16.5%	TO STAFF	TO
	COSTS (1)	ALLOC.	ALLOC	ALLOC.	& CO. (2)	RUCO
Labor	\$439,680	\$140,698	\$123,110	\$72,547	-\$50,563	-\$68,150
Purchased Water	46,939	15,020	13,143	7,745	-5,398	-7,276
Fuel & Power (3)	373,211	119,428	60,492	60,492	0	-58,936
Chemicals (3)	414,181	132,538	57,985	57,985	0	-74,553
Management Fees	151,361	48,436	42,381	24,975	-17,407	-23,461
Group Insurance	1,351	432	378	223	-155	-209
Rents	22,082	7,066	6,183	3,644	-2,539	-3,423
General Office Expense	9,819	3,142	2,749	1,620	-1,129	-1,522
Miscellaneous	199,988	63,996	55,997	32,998	-22,999	-30,998
Maintenance Expense	153,567	49,141	42,999	25,339	-17,660	-23,803
Depreciation					-134,826	-181,722
Income Taxes (4)					125,361	220,117
Net Operating Expense Adjust.					-\$127,316	-\$253,935
Operating Income Adjust.					\$127,316	\$253,935

NOTES:

- (1) Per Staff Schedule GTM-12
- (2) Adjusted to Company Rebuttal Operating Income
- (3) Staff Variable Cost Allocation Based on 14% Flows
- (4) Adjusted for the Effect of Interest Synchronization

Schedule Anthem - 7

**Arizona American Water Company
Docket Nos. W-01303A-09-0343
and SW-01303A-09-0343
June 18, 2010**

ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & WASTEWATER DISTRICTS

ANTHEM/AGUA FRIA WASTEWATER DISTRICT

Comparison of Staff, RUCO and Company Revenue Requirements With Proposed Adjusted Amount

DESCRIPTION	RECOMMENDED PER FILINGS	NW PLANT ADJUST. (1)	PULTE ADJUST. (2)	ADJUSTED AMOUNT
STAFF: (3)				
Rate Base	\$44,359,326	-\$2,482,145	-\$4,408,870	\$37,468,311
Adjusted Operating Income	169,900	127,316	45,483	342,699
Required Rate of Return	7.20%			7.20%
Required Operating Income	3,193,871			2,697,718
Operating Income Deficiency	3,023,971			2,355,019
Gross Revenue Conversion Factor	1.6561			1.6561
Required Revenue Increase	5,007,999			3,900,148
Adjusted Test Year Revenues	8,637,123			8,637,123
Percentage Increase in Revenues	57.98%			45.16%
RUCO: (4)				
Rate Base	\$47,558,242	-\$3,345,499	-\$4,408,870	\$39,803,873
Adjusted Operating Income	23,202	253,935	45,483	322,620
Required Rate of Return	6.77%			6.77%
Required Operating Income	3,219,693			2,694,722
Operating Income Deficiency	3,196,491			2,372,102
Gross Revenue Conversion Factor	1.6561			1.6561
Required Revenue Increase	5,293,709			3,928,438
Adjusted Test Year Revenues	8,634,567			8,634,567
Percentage Increase in Revenues	61.31%			45.50%
COMPANY: (5)				
Rate Base	\$45,416,602	-\$2,482,145	-\$4,408,870	\$38,525,587
Adjusted Operating Income	88,073	127,316	45,483	260,872
Required Rate of Return	7.20%			7.20%
Required Operating Income	3,269,995			2,773,842
Operating Income Deficiency	3,181,922			2,512,970
Gross Revenue Conversion Factor	1.6683			1.6683
Required Revenue Increase	5,308,401			4,192,388
Adjusted Test Year Revenues	8,634,017			8,634,017
Percentage Increase in Revenues	61.48%			48.56%

NOTES:

- (1) Per Surrebuttal Exhibit DLN-3
- (2) Per Direct Testimony Exhibit DLN-1; Operating Income Adjustment Modified for Interest Synchronization
- (3) Per Staff Schedule GTM-1
- (4) Per Attachment RCS-3 to Direct Testimony of RUCO Witness Ralph Smith - Anthem/Agua Fria Wastewater
- (5) Per Company Rebuttal Schedule A-1 - Anthem/Agua Fria Wastewater

Exhibit

D

Exhibit Magruder-4



Comparisons of Proposals for Residential Customers with 5/8 and 3/4-inch Water and Wastewater Services Provided by Arizona-American Water Company

Table 1 shows the differences between the Company, Staff and Magruder Rate Proposals at the district level for Residential 5/8 and 3/4-inch customers for each of the eight water districts. The Monthly Charge and rate blocks in terms of thousands of gallons and cost per 1000 gallons for three to five Tiers. The First Residential Tier has been called a "Lifeline" tier to satisfy all basic human (sanitation, health, food, etc.) needs for water. The following proposals are included

- Present Rates (light green)
- Company Consolidated Rate Proposals for All Districts and without Sun City (aqua)
- Company Standalone Rates without Rate Consolidation for Sun City and Anthem in this rate case (purple)
- Staff Standalone Rates without Rate Consolidated Rates (tan)
- Staff Rate Consolidated Scenarios from Michlik Testimony (orange)
 - Scenario 1 – all Districts Consolidated (water and wastewater)
 - Scenario 2 – Two groups (SC + SCW) and (all other districts)
 - Scenario 3 – Three groups
 - Sun City and Sun City West
 - Agua Fria and Anthem and Paradise Valley
 - Tubac and Mohave and Havasu
- Magruder Scenario 1C (from Exhibit Magruder-3) (grey)

Table 2 reflects the Percentage Change in Total Revenue for Residential and Commercial customers for each district as a result of consolidation of rates for ALL districts. The Total Revenue percentage is divided three for a three-step implementation and by five for a five-step implementation based on Company's filings.

Table 3 shows the same with Sun City not included in the Consolidated Rates used by the other seven water districts. Mohave used the two groups from Staff Testimony and for Paradise Valley all three 5/8 and 3/4 rate categories are shown.

The new Table 4 shows the actual cost for the "average" and "median" customers in each district. Values in parenthesis "(" in red reflect lower customer cost than at present, while those with a "+" in navy blue reflect districts with higher rates than at present for the Staff Scenarios #1, #2 and #3.

Table 5 shows the "Change" from the present or other standalone rates based on the data in Table 4.

The new Table 6 shows the Wastewater Rates in dollars for each district and the three Staff Scenarios with "(" where the rate decreases and "+" where the rate increases. The "average customer usage" is based on the total gallons divided by the number of customers in that rate category and "median customer usage" is for the median or 50th percentile customer with half consuming more and half using less water.

The new Table 7 expressed the changes in Table 6 in percentages, similar to Table 5.

Table 1

Differences between Company (all districts and without Sun City), Staff (Scenarios 1, 2 and 3), and Magruder Rate Proposals at the District Level

5/8 & 3/4 Residential	Proposal	Monthly Charge	First Tier (Lifeline)		Second Tier		Third Tier		Fourth Tier		Fifth Tier	
Sun City	Present	\$7.99	0-3k	\$0.719	3-10k	\$1.329	10k+	\$1.792				
v3, v4	Company Consol	\$16.97	0-4k	\$1.20	4-10k	\$2.29	10-35k	\$2.79	35-60k	\$3.29	60k+	\$3.79
	Company Standalone	\$10.21	0-3k	\$0.9183	3-10k	\$1.6974	10k+	\$2.1611				
	Staff Standalone	\$9.00	0-3k	\$0.70	3-9k	\$1.40	9k+	\$2.4518				
Scenario 1	Staff Consol	\$14.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$3.4821				
Scenario 2	Staff Consol	\$11.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$2.6738				
Scenario 3	Staff Consol	\$11.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$2.6738				
1C	Magruder	\$15.00	0-4k	\$0.83	4-10k	\$1.90	10-20k	\$2.96	20-40k	\$4.50	60k+	\$6.00
Sun City West	Present	\$14.80	0-4k	\$2.41	4-15k	\$2.95	15k+	\$3.56				
v3, v4	Company Consol	\$16.97	0-4k	\$1.20	4-10k	\$2.29	10-35k	\$2.79	35-60k	\$3.29	60k+	\$3.79
Without SC v4	Company Consol	\$19.95	0-3k	\$1.00	3-10k	\$2.535	10-25k	\$3.035	25-65k	\$3.535	65k+	\$3.82
	Staff Standalone	\$14.80	0-4k	\$2.41	4-15k	\$2.95	15k	\$3.56				
Scenario 1	Staff Consol	\$14.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$3.4821				
Scenario 2	Staff Consol	\$11.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$2.6738				
Scenario 3	Staff Consol	\$11.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$2.6738				
1C	Magruder	\$15.00	0-4k	\$0.83	4-10k	\$1.90	10-20k	\$2.96	20-40k	\$4.50	60k+	\$6.00
Agua Fria	Present	\$13.85	0-4k	\$1.824	4-13k	\$2.728	13k+	\$3.275				
v3, v4	Company Consol	\$16.97	0-4k	\$1.20	4-10k	\$2.29	10-35k	\$2.79	35-60k	\$3.29	60k+	\$3.79
Without SC v4	Company Consol	\$19.95	0-3k	\$1.00	3-10k	\$2.535	10-25k	\$3.035	25-65k	\$3.535	65k+	\$3.82
	Staff Standalone	\$13.85	0-4k	\$4.824	4-13k	\$2.728	13k	\$3.275				
Scenario 1	Staff Consol	\$14.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$3.4821				
Scenario 2	Staff Consol	\$16.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$3.6679				
Scenario 3	Staff Consol	\$18.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$4.1795				
1C	Magruder	\$15.00	0-4k	\$0.83	4-10k	\$1.90	10-20k	\$2.96	20-40k	\$4.50	60k+	\$6.00
Anthem	Present	\$17.53	0-4k	\$1.54	4-10k	\$2.41	10k+	\$3.08				
v3, v4	Company Consol	\$16.97	0-4k	\$1.20	4-10k	\$2.29	10-35k	\$2.79	35-60k	\$3.29	60k+	\$3.79
Without SC v4	Company Consol	\$19.95	0-3k	\$1.00	3-10k	\$2.535	10-25k	\$3.035	25-65k	\$3.535	65k+	\$3.82
	Company Standalone	\$35.13	0-4k	\$3.0859	4-10k	\$4.8293	10k+	\$6.1719				
	Staff Standalone	\$25.00	0-3k	\$2.00	3-9k	\$5.00	9k+	\$7.8670				
Scenario 1	Staff Consol	\$14.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$3.4821				
Scenario 2	Staff Consol	\$16.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$3.6679				
Scenario 3	Staff Consol	\$18.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$4.1795				
1C	Magruder	\$15.00	0-4k	\$0.83	4-10k	\$1.90	10-20k	\$2.96	20-40k	\$4.50	60k+	\$6.00

Table 1

Differences between Company (all districts and without Sun City), Staff (Scenarios 1, 2 and 3), and Magruder Rates at the District Level (REVISION A)

5/8 & 3/4 Residential	Proposal	Monthly Charge	First Tier (Lifeline)		Second Tier		Third Tier		Fourth Tier		Fifth Tier	
Subac	Present	\$24.70	0-3k	\$1.90	3-10k	\$3.00	10-20k	\$4.00	20k+	\$6.00		
v3, v4	Company Consol	\$16.97	0-4k	\$1.20	4-10k	\$2.29	10-35k	\$2.79	35-60k	\$3.29	60k+	\$3.79
Without SC v4	Company Consol	\$19.95	0-3k	\$1.00	3-10k	\$2.535	10-25k	\$3.035	25-65k	\$3.535	65k+	\$3.82
	Staff Standalone	\$24.70	0-3k	\$1.90	3-10k	\$3.00	10-20k	\$4.00	20k+	\$6.00		
Scenario 1	Staff Consol	\$14.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$3.4821				
Scenario 2	Staff Consol	\$16.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$3.6679				
Scenario 3	Staff Consol	\$10.50	0-3k	\$1.00	3-10k	\$1.50	10k	\$2.1250				
1C	Magruder	\$15.00	0-4k	\$0.83	4-10k	\$1.90	10-20k	\$2.96	20-40k	\$4.50	60k+	\$6.00
ohave	Present	\$9.00	0-4k	\$0.885	4-10k	\$1.343	10k+	\$1.6070				
v3, v4	Company Consol	\$16.97	0-4k	\$1.20	4-10k	\$2.29	10-35k	\$2.79	35-60k	\$3.29	60k+	\$3.79
Without SC v4	Company Consol	\$19.95	0-3k	\$1.00	3-10k	\$2.535	10-25k	\$3.035	25-65k	\$3.535	65k+	\$3.82
	Staff Standalone	\$9.00	0-4k	\$0.885	4-10k	\$1.343	10k+	\$1.6070				
Scenario 1	Staff Consol	\$14.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$3.4821				
Scenario 2	Staff Consol	\$16.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$3.6679				
Scenario 3	Staff Consol	\$10.50	0-3k	\$1.00	3-10k	\$1.50	10k	\$2.1250				
1C	Magruder	\$15.00	0-4k	\$0.83	4-10k	\$1.90	10-20k	\$2.96	20-40k	\$4.50	60k+	\$6.00
avasu	Present	\$23.50	0-4k	\$2.34	4-13k	\$3.02	13k+	\$3.55				
v3, v4	Company Consol	\$16.97	0-4k	\$1.20	4-10k	\$2.29	10-35k	\$2.79	35-60k	\$3.29	60k+	\$3.79
Without SC v4	Company Consol	\$19.95	0-3k	\$1.00	3-10k	\$2.535	10-25k	\$3.035	25-65k	\$3.535	65k+	\$3.82
	Staff Standalone	\$23.50	0-4k	\$2.34	4-13k	\$3.02	13k+	\$3.55				
Scenario 1	Staff Consol	\$14.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$3.4821				
Scenario 2	Staff Consol	\$16.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$3.6679				
Scenario 3	Staff Consol	\$10.50	0-3k	\$1.00	3-10k	\$1.50	10k	\$2.1250				
1C	Magruder	\$15.00	0-4k	\$0.83	4-10k	\$1.90	10-20k	\$2.96	20-40k	\$4.50	60k+	\$6.00
paradise alley	Present	\$25.15	0-5k	\$1.05	5-15k	\$1.25	15-40k	\$2.75	40-80k	\$3.00	80k+	\$3.2259
v3, v4	Company Consol	\$16.97	0-4k	\$1.20	4-10k	\$2.29	10-35k	\$2.79	35-60k	\$3.29	60k+	\$3.79
Without SC v4	Company Consol	\$19.95	0-3k	\$1.00	3-10k	\$2.535	10-25k	\$3.035	25-65k	\$3.535	65k+	\$3.82
	Staff Standalone	\$25.15	0-5k	\$1.05	5-15k	\$1.25	15-40k	\$2.75	40-80k	\$3.00	80k+	\$3.2259
Scenario 1	Staff Consol	\$14.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$3.4821				
Scenario 2	Staff Consol	\$16.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$3.6679				
Scenario 3	Staff Consol	\$18.00	0-3k	\$1.00	3-10k	\$2.25	10k	\$4.1795				
1C	Magruder	\$15.00	0-4k	\$0.83	4-10k	\$1.90	10-20k	\$2.96	20-40k	\$4.50	60k+	\$6.00

Table 2
Change in Revenue used for Consolidated Rates
(Company v3, v4)

District	Total Rate Change (Residential and Commercial)	Percent change a year if over 3 years	Percent change a year if over 5 years
Sun City	Increase by 22%	+ 7.3%	+ 4.4%
Sun City West	0%	0	0
Agua Fria	0%	0	0
Anthem	Decrease by 143%	- 43.3%	- 28.6%
Tubac	Decrease by 50%	- 16.7%	- 10.0%
Mohave	Increase by 60%	+ 20.0%	+ 15.0%
Havasus	Decrease by 20%	+ 6.7%	+ 4.0%
Paradise Valley	Increase by 5%	+ 1.7%	+ 1.2%

Table 3
Consolidated Rates Change in Revenue for Rate Classes
(Company WITHOUT SUN CITY v4)

District	Total Rate Change (Residential and Commercial)	Percent change a year if over 3 years	Percent change a year if over 5 years
Sun City	No change-standalone	No change	No change
Sun City West	Decrease -0.65%	-0.2%	-0.1%
Agua Fria	Increase 2.05%%	+0.7%	+0.4%
Anthem	Decrease by 96.7%	- 32.2%	- 19.3%
Tubac	Decrease by 35.0%	- 10.2%	- 7.0%
Mohave	Increase by 58.6%	+ 19.5%	+ 11.7%
Havasus	Decrease by 14.5%	+ 4.8%	+ 2.9%
Paradise Valley	Increase by 12.8%	+ 4.2%	+ 2.6%

Table 4

Residential 5/8 and 3/4 inch Water RATES (in Dollars) for the Commission Scenarios where +\$ means a higher rate than present and (\$) means a lower rate than present.

Water District	Average Usage					Median Usage				
	Monthly Usage (gallons)	Stand-alone Cost	Staff Scenario (in \$ per 1,000 gallons)			Monthly Usage (gallons)	Stand-alone Cost	Staff Scenario (in \$ per 1,000 gallons)		
			#1	#2	#3			#1	#2	#3
Sun City West	6,702	\$32.41	(\$25.33)	(\$22.33)	(\$22.33)	6,000	\$30.34	(\$23.75)	(\$20.75)	(\$20.75)
Sun City	7,954									
• Present		\$16.73					\$15.46			
• Company		\$21.37					\$19.75			
• Staff		\$18.04	+\$28.15	+\$25.15	+\$25.15	7,000	\$16.70	+\$26.00	+\$23.00	+\$23.00
Anthem	9,616									
• Present		\$37.22					\$33.33			
• Company		\$74.59					\$66.79			
• Staff		\$65.85	(\$31.89)	(\$33.89)	(\$35.89)	8,000	\$56.00	(\$28.25)	(\$30.25)	(\$32.25)
Agua Fria	7,679	\$31.18	(\$27.53)	(\$29.53)	+\$31.53	6,000	\$26.60	(\$23.75)	(\$25.75)	+\$27.75
Havas	9,796	\$50.36	(\$32.29)	(\$34.29)	(\$23.69)	5,000	\$35.88	(\$21.50)	(\$23.50)	(\$16.50)
Mohave	8,070	\$18.01	+\$28.41	+\$30.41	+\$21.11	5,000	\$13.88	+\$21.50	+\$23.50	+\$16.50
Bullhead City		\$20.98	+\$33.58	+\$35.63	+\$24.51	7,000	\$16.57	+\$26.00	+\$28.00	+\$19.50
Rio	10,239	\$20.98	+\$33.58	+\$35.63	+\$24.51	7,000	\$16.57	+\$26.00	+\$28.00	+\$19.50
Tubac	11,740	\$58.36	(\$38.81)	(\$41.15)	(\$27.70)	7,000	\$42.40	(\$26.00)	(\$28.00)	(\$19.50)
Paradise Valley	24,954									
General Svc		\$65.81	+\$84.82	+\$89.75	+\$99.25	10,000	\$37.66	(\$32.75)	(\$34.75)	(\$36.75)
P1M1A		\$54.79	+\$68.98	+\$73.02	+\$80.24	11,000	\$37.90	+\$36.23	+\$38.43	+\$40.93
P1M1B	8,545	\$34.83	(\$29.48)	(\$31.48)	(\$33.48)	8,000	\$34.15	(\$28.25)	(\$30.25)	(\$32.25)

Table 5

Residential 5/8 and 3/4 inch Water Rate PERCENT RATE CHANGES for the Present and Staff Scenarios, where +% is a rate increase more than present and (%) is a rate decrease compared to the Present Rates

Water District	Average Water Usage					Median Water Usage				
	Monthly Avg. Usage	Stand-alone Change	Staff Scenario (in %)			Monthly Median Usage	Stand-alone Change	Staff Scenario (in %)		
			#1	#2	#3			#1	#2	#3
City West	6,702	---	(21.85%)	(31.10%)	(31.10%)	6,000	---	(21.72%)	(31.61%)	(31.61%)
City	7,954	---	+68.26%	+50.33%	+50.33%	7,000	---	+68.17%	+48.77%	+48.77%
Present		---	+31.73%	+17.69%	+17.69%		---	+31.64%	+16.46%	+16.46%
Company		+27.75%	+56.04%	+39.41%	+39.41%		+27.75%	+55.69%	+37.72%	+37.72%
Staff		+7.80%					+8.00%			
Anthem	9,616	---	(14.32%)	(8.97%)	(3.60%)	8,000	---	(15.24%)	(9.24%)	(3.24%)
Present		---	(57.19%)	(54.56%)	(51.88%)		---	(57.70%)	(54.47%)	(51.71%)
Company		+100.39%	(51.57%)	(48.53%)	(45.50%)		+100.39%	(49.55%)	(45.54%)	(42.41%)
Staff		+76.89%					+68.02%			
Agua Fria	7,679	---	(11.72%)	(5.31%)	+1.11%	6,000	---	(10.72%)	(3.20%)	+4.32%
Havas	9,796	---	(35.88%)	(31.91%)	(52.95%)	5,000	---	(40.08%)	(34.50%)	(54.01%)
Mohave	8,070	---	+57.77%	+68.87%	+17.02%	5,000	---	+54.87%	+69.27%	+18.85%
Bullhead City		---	+60.05%	+69.81%	+16.80%	7,000	---	+56.92%	+68.99%	+17.69%
Rio	10,239	---	(33.50%)	29.49%	(52.54%)	7,000	---	(38.68%)	(33.96%)	(54.01%)
Tubac	11,740	---	(33.50%)	29.49%	(52.54%)	7,000	---	(38.68%)	(33.96%)	(54.01%)
Paradise Valley	24,954	---	+28.89%	+36.38%	+50.82%	10,000	---	(13.04%)	(7.73%)	(2.42%)
General Svc		---	+25.90%	+33.27%	+46.44%		---	+4.40%	+1.39%	+7.99%
P1M1A		---	(15.37%)	(9.63%)	(3.89%)		---	(17.28%)	(11.42%)	(5.56%)
P1M1B	8,545	---	(15.37%)	(9.63%)	(3.89%)	8,000	---	(17.28%)	(11.42%)	(5.56%)

Table 6
Residential 5/8 and 3/4 inch WASTEWATER RATES (in dollars) for the
Present, Staff, and Company Scenarios.

Water District	Average/Mean Usage					
	Monthly Usage in Gallons	Stand-alone (Non-Consolidated)	Staff Scenario (in \$)		Company Scenario (in \$)	
			#1	#2 (SC+SC+) + All others	v3 All districts	v4 (Sun City standalone)
Sun City West • Present • Company • Staff	NA	\$25.01 \$31.55 \$31.94	+32.97	(\$22.46)	+\$34.24	+\$50.35
Sun City • Present • Company • Staff	NA	\$13.69 \$19.27 \$18.05	+32.97	+\$22.46	+\$34.24	\$19.27 \$18.05
Anthem/Agua Fria • Present • Company • Staff	5,632 average	\$47.36 \$86.10 \$76.93	(\$32.97)	Not used		
Anthem/Agua Fria • Present • Company • Staff	7,000 median	\$52.12 \$94.76 \$95.62	(\$32.97)			
Anthem/Agua Fria (Consolidated)	NA	---	(\$32.97)	+\$66.77	(\$34.24)	+\$50.35
Mohave	NA	\$56.55	(\$32.97)	+\$66.77	(\$34.24)	+\$50.35

Table 7
Residential 5/8 and 3/4 inch WASTEWATER PERCENT RATE CHANGES
for the Present, Staff, and Company Scenarios.

Water District	Average/Mean Usage					
	Monthly Usage in Gallons	Stand-alone (Non-Consolidated)	Staff Scenario (in %)		Company Scenario (in %)	
			#1	#2 (SC+SCW) + All others	v3 All districts	v4 (Sun City standalone)
Sun City West • Present • Company • Staff	NA	--- +26.15% +27.71%	+31.83% +4.50% +3.22%	(10.96%) (28.81%) (29.68%)	+36.91% +8.53% +89.70%	+101.32% +59.59% +57.64%
Sun City • Present • Company • Staff	NA	--- +27.75% +7.80%	+140.83% +71.09% +82.66%	+64.06% +16.55% +24.43%	+150.11% +77.69% +89.70%	NA +40.76% +31.85%
Anthem/Agua Fria • Present • Company • Staff	5,632 average usage	--- +81.81% +62.45%	(30.38%) (44.83%) (57.14%)	Not used		
Anthem/Agua Fria • Present • Company • Staff	7,000 median usage	--- +81.81% +83.46%	(36.74%) (40.19%) (65.52%)			
Anthem/Agua Fria (Consolidated)	NA	---	(31.02%)	+40.98%	(27.70%)	(6.31%)
Mohave	NA	---	(41.70)%	+18.07%	(39.45%)	(10.95%)

Exhibit

E

**Anthem Rate Design
Schedule 1**

**ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & WASTEWATER DISTRICTS**

Development of Stand-Alone Rate Design Adjustment Factors

DESCRIPTION	ANTHEM LEGAL POSITION (1)	ANTHEM RATE BASE DEFERRAL POSITION (2)
WATER:		
Company: (3)		
Adjusted Test Year Revenues	\$7,482,226	\$7,482,226
Required Revenue Increase	5,962,627	5,962,627
Total Revenue Requirement	\$13,444,853	\$13,444,853
Anthem:		
Adjusted Test Year Revenues	\$7,482,226	\$7,482,226
Required Revenue Increase (4)	3,247,943	3,716,815
Total Revenue Requirement	\$10,730,169	\$11,199,041
Revenue Requirement Decrease	-\$2,714,684	-\$2,245,812
Rate Design Factor (5)	79.81%	83.30%
WASTEWATER:		
Company: (6)		
Adjusted Test Year Revenues	\$8,634,017	\$8,634,017
Required Revenue Increase	5,308,401	5,308,401
Total Revenue Requirement	\$13,942,418	\$13,942,418
Anthem:		
Adjusted Test Year Revenues	\$8,634,017	\$8,634,017
Required Revenue Increase (7)	3,728,950	3,928,438
Total Revenue Requirement	\$12,362,967	\$12,562,455
Revenue Requirement Decrease	-\$1,579,451	-\$1,379,963
Rate Design Factor (8)	88.67%	90.10%

NOTES:

- (1) Anthem Legal Position to Exclude \$23.3 Million of Pulte Refunds From Rate Base
- (2) Anthem Position to Defer Inclusion in Rate Base of \$20.2 Million of Pulte Refunds
- (3) Per Company Rebuttal Schedule A-1 - Anthem Water
- (4) Based on Adjusted RUCO Recommendations: Anthem Legal, Schedule 2, and Exhibit DLN-5, Surrebuttal
- (5) Factors to be Applied Across-the-Board to Company Rebuttal Water Rate Design Recommendations
- (6) Per Company Rebuttal Schedule A-1 - Anthem/Agua Fria Wastewater
- (7) Based on Adjusted RUCO Recommendations: Anthem Legal, Schedule 1, and Exhibit DLN-4, Surrebuttal
- (8) Factors to be Applied Across-the-Board to Company Rebuttal Wastewater Rate Design Recommendations

**Anthem Rate Design
Schedule 2**

**ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & WASTEWATER DISTRICTS**

Development of Consolidated Rate Design Adjustment Factors

DESCRIPTION	ANTHEM LEGAL POSITION (1)	ANTHEM RATE BASE DEFERRAL POSITION (2)
WATER:		
Company Consolidated Revenue Target (3)	\$71,711,438	\$71,711,438
Anthem Adjustment (4)	-2,714,684	-2,245,812
Adjusted Consolidated Revenue Target	\$68,996,754	\$69,465,626
Rate Design Factor (5)	96.21%	96.87%
WASTEWATER:		
Company Consolidated Revenue Target (6)	\$21,929,805	\$21,929,805
Anthem Adjustment (4)	-\$1,579,451	-\$1,379,963
Adjusted Consolidated Revenue Target	\$20,350,354	\$20,549,842
Rate Design Factor (7)	92.80%	93.71%

NOTES:

- (1) Anthem Legal Position to Exclude \$23.3 Million of Pulte Refunds From Rate Base
- (2) Anthem Position to Defer Inclusion in Rate Base of \$20.2 Million of Pulte Refunds
- (3) Per Company Water Consolidation Model - Version 4
- (4) Per Anthem Rate Design Schedule 1
- (5) Factors to be Applied Across-the-Board to Marshall Magruder's Consolidated Water Rate Design Recommendations
- (6) Per Company Wastewater Consolidation Model - Version 4
- (7) Factors to be Applied Across-the-Board to Company's Consolidated Wastewater Rate Design Recommendations